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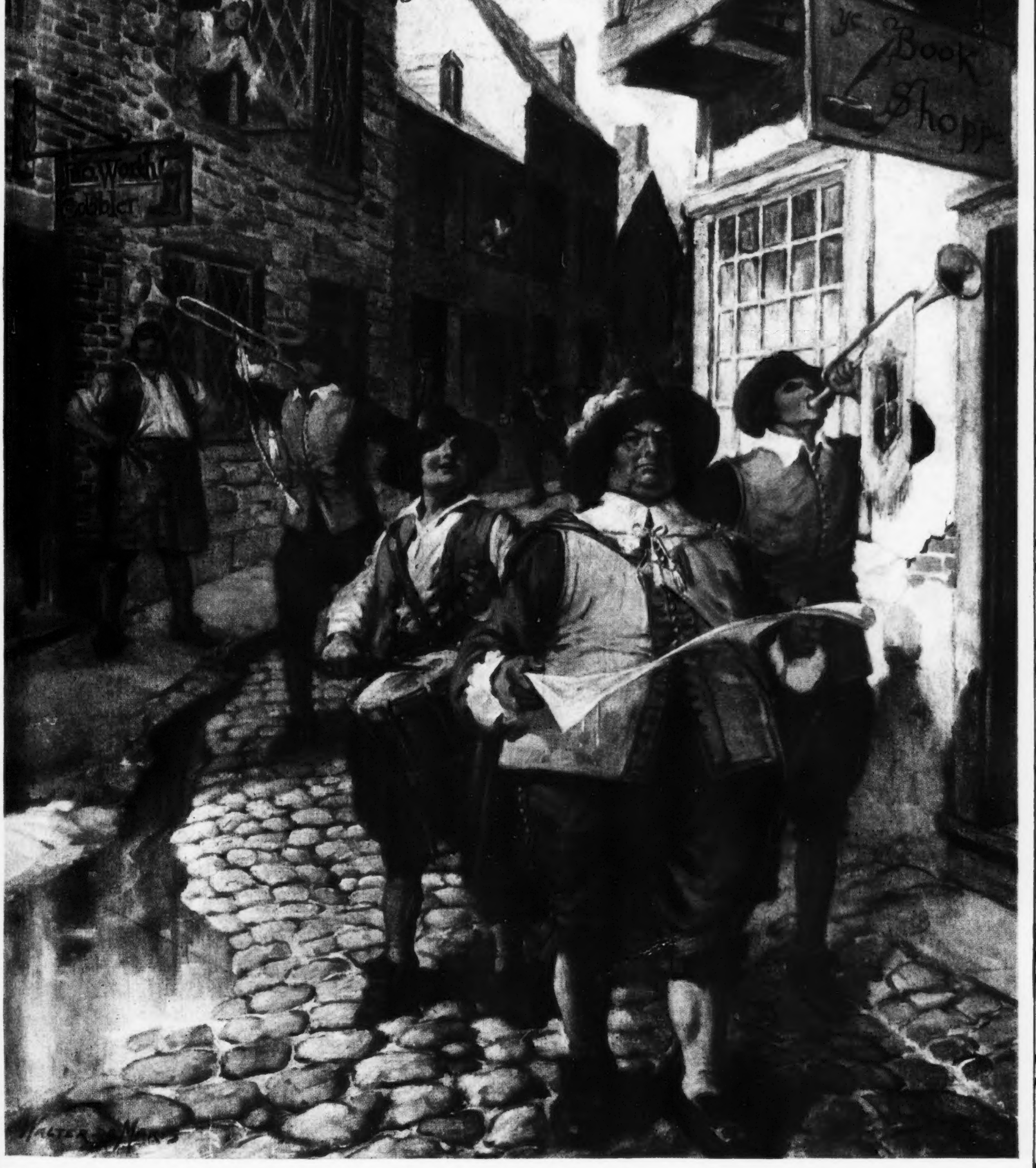

Proclaiming the Value of Coins

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Published in Two Sections—Section One

Proclaiming the Value of Coins

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

HOW quaint and curious it seems today that once upon a time men stood in the streets of an American town with drum and trumpet, announcing the governmental value of some of the coins then common in circulation.

But history records that this was done and Mr. de Maris, the artist, has reconstructed the scene for this month's cover illustration.

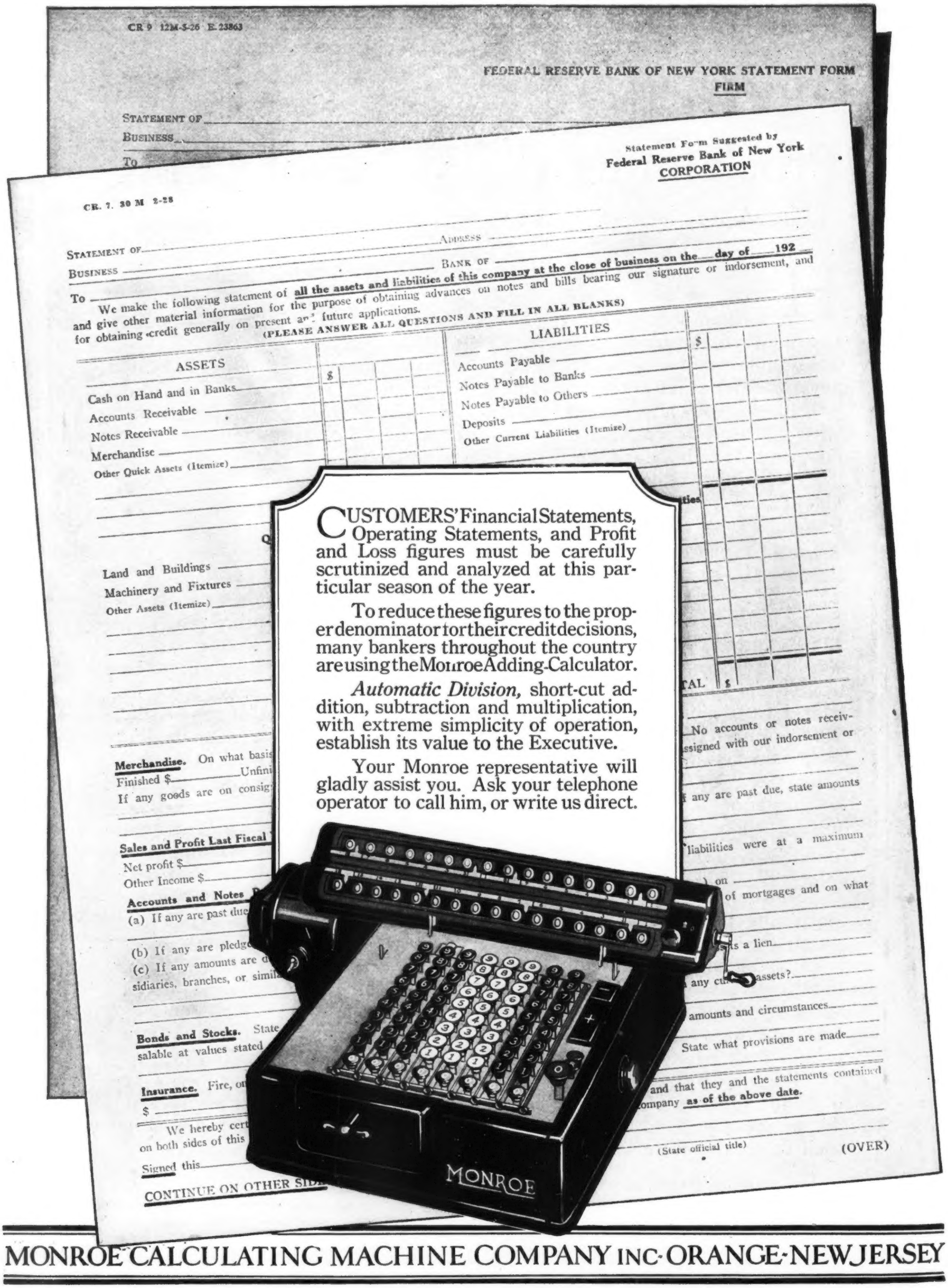
It all happened in Boston about 250 years ago when "the Province of the Massachusetts Bay" was having much trouble and vexation over a little money. The imperfections of its currency were accentuated by the circumstance that foreign money circulated at varying rates and seemed to be exerting a very depressing influence on all the business of the province.

In an attempt to right things an order was issued by the proper authority "that all pieces of eight, Civill, Pillar and Mexico at due weight shall pass in payment at six schillings per piece, that half pieces of Eight, Quarter pieces and Realls do pass pro rate," and it is written in such records as were left that on a day in March "proclamation to the effect was given near the Town House by beat of Drum and Sound of Trumpet."

But in Boston—as well as in many other places before and after—this fixing of a value failed to meet the expectations of its proponents for on May 21, 1687, it was recorded that "it does not answer the end, money grows very scarce and no trade to bring it in."

FROM which it appears that a misbehaving currency cannot be made to alter its course of conduct by a mere mandate, unsupported by practical and appropriate constructive action, from which it appears also to be fairly evident that natural economic laws went on striking their own true balances in mysterious ways, just as they always have from the beginning, and as they no doubt will continue to do for all time.

But the attempts that have been made from time to time to thus correct deep-seated monetary evils by one grand master-stroke furnish many a delightful comedy drama in the history of nations.



MONROE CALCULATING MACHINE COMPANY INC · ORANGE · NEW JERSEY

This Month's Journal
and
Your Own Bank

THERE is many a good sidelight, as well as a strong direct light on banking in the present issue of the JOURNAL, to the making of which many men have contributed.

Of first consideration in every kind of banking is the kind of times that lay before us, the probable condition of business during the coming year. Will the tide of prosperity continue to flow or is there to be an ebb tide? Just what we believe business is going to be will of course constitute an important factor in determining what business actually turns out to be. The beliefs that various men hold these days are not so much on signs, as they used to be in bygone times but on statistics, which is the modern name for hard facts.

JOSEPH S. McCOY, the U. S. Treasury Actuary deals in hard facts, and with their aid has for years been successfully running down the elusive answers. Questions as to the production of government income as related to the multitude of taxable items—which questions might strike the average man as impossible of solution or answer—are all in the day's work with him. He finds the answers and the years have shown that he finds the correct answers. What to others are the great commercial and financial mysteries, to him are the commonplace things in the routine of his office. The article, "Sources of Prosperity" which he has written for the JOURNAL should therefore be helpful to everyone who is charting his business course for the coming months. We will not anticipate the reader's perusal of it other than to say that Mr. McCoy sees prosperity ahead, and his article in the factual way of a matter-of-fact practical man tells why there is prosperity ahead.

EVERY man who cherishes and advocates independent banking should read the article by J. A. Pondrom, president of the City National Bank of Dallas, Texas, which appears under the caption, "A Brief for Independent Banking." After all the discussion of independent banking we have had down through the years one might be pardoned for jumping to the conclusion that a reader could tell in advance just about what form an article under the foregoing caption would take, yet any such conclusion applied to the present article would be an injustice. Mr. Pondrom gives us something new to think about—something that is going to be a useful contribution to the debate on the independent bank.

"A NEW WAY to Lend Money," may in many minds provoke the rejoinder, that the old ways are bad enough. Under the title just quoted Howard Whipple of the Bank of America in California presents and explains a system so simple, logical, and so necessary to efficient banking that every progressive banker might well look into it and compare it with his own way. By the system Mr. Whipple presents, the wealth of credit information which so many men like to carry in their heads, and make a mystery of, goes into the files and is available to any other officer—as it should be.

MANY bankers have reported and commented on a drop in their savings deposits. Where did the money go? is a question which has been answered in various ways, and often there has been a something lacking in the answer. To those especially interested in this phenomenon there is an article in this issue which should command their attention. "Where Savings Deposits Went" is the title, and the author is Prof. William G. Sutcliffe of the College of Business Administration of Boston University, also the author of several books of interest to bankers.

PERHAPS your bank has among its customers a merchant who is not doing as well as he should, and you would like to help him so adjust his business that he will increase the margin of profit. Perhaps he may not be giving the public all the opportunity that the public wants to purchase his goods. If buyers could get to his store more often in their own time instead of in the time that convention has fettered the merchant with, they might come oftener and purchase more; and perhaps just that additional trade might be sufficient to take that merchant's business out of the anxious column.

Everything in the world changes. Everyone has seen undreamed of changes all along the line in merchandising. Whether or not night stores are coming back remains to be seen, but there is a trend in that direction that it behooves the banker to watch for the benefit of those customers who need guidance. This trend, John Allen Murphy, economic investigator and observer, discusses in the article "Night Stores."

"BANK Management and the Examiner" is the title of an article which will hold the mirror up both to the examiner and to the examined. Written out of his own experience as a bank examiner, A. B. Mason reveals, with an undercurrent of humor, how one of the stated examinations of a bank appears to the man sent by the State department. And the article should serve a higher purpose than furnishing so much reading matter. It should help toward better protective measures in the bank,

and for better preparation to enable the examiner to do those things which the laws charge him with doing.

"MONEY at Mischief," by Luther Blake, president of the Standard Statistics Co. of New York, is timely and, we think, a valuable article. He draws a lesson from the nation's recent experience with brokers' loans. He gives something that we may think about and store up against the coming of the time when a tendency on the part of money to again pile itself up into mountainous proportions.

WITH the business world so contracting that in spite of any prejudices he may have every man claiming knowledge of finance will be expected to know more and more about foreign securities, it is well to read the article on French securities and some of the quirks of French corporate organization that Mr. d'Algay gives in this issue. His discussion of the subject was begun in the December JOURNAL and is concluded in this number.

PROFESSOR GUSTAV CASSEL, the noted Swedish economist, in the December JOURNAL attributed the stability of American commodity price levels to the credit control policies of the Federal Reserve System. This month Frederick A. Bradford in "Why Prices Stay Put" takes issue with Professor Cassel, asserting that business and not reserve banking prevented price inflation. In the light of probable coming events in Congress these two articles provide a brief but comprehensive background on one of the most important questions as to the scope and effectiveness of a central banking system.

A FEW weeks ago Canada stopped exporting gold in the face of an exchange situation that presupposed the movement of bullion from the Dominion. There was no official embargo, nevertheless Canada, a gold standard country, suddenly closed its doors against the outward flow of the metal. "Canada's Struggle with Gold" by W. A. McKague explains what happened and how it was possible for the Dominion to effect a stoppage of gold shipments and still remain officially on a free gold basis.

SMALLER banks all over the country have come to consider the chain store account as one of their most difficult problems. What is being done to find a solution is told by Hal Y. Lemon, chairman of the Commission on Banking Practices and Clearinghouse Functions of the American Bankers Association, in his article "Chain Stores and Banks Get Together," which describes a new procedure in banking. Representatives of the banks and the chain stores held a joint meeting in Chicago and talked over the problem in an effort to arrive at a mutual understanding. This meeting inaugurated a hitherto untried method of smoothing out difficulties between banks and a large class of depositors.

AMERICAN BANKERS ASSOCIATION JOURNAL

Sources of Prosperity

By JOSEPH S. McCOY
United States Government Actuary

Treasury Tax Estimates Indicate a Very Prosperous New Year. Whatever Losses to Taxable Income Have Resulted From Stock Market Slump Expected to be Made Up by Increased Income From Other Sources. Statistics Forecast Continued Prosperity.

THE calendar year 1929 has been a prosperous one. It is true that the recent tangle on exchange at one time threatened to seriously interfere with our financial welfare. The foundation, however, upon which prosperity is built was too solid for this episode to upset or even to seriously weaken it.

The calendar year 1928 was undoubtedly much more prosperous than was the year 1927. The best measure of prosperity is the incomes received by the people. This again is best measured by the income tax returns. The "Statistics of Income for 1927" is the latest information we have as to returns of income, and the following is extracted therefrom:

Individual Incomes

	Total Taxable Income Returned	Net Tax
1925........	$17,471,219,362	$734,555,183
1926........	17,422,632,572	732,470,790
1927........	18,090,064,799	830,639,434

Corporate Incomes

	Total Taxable Income Returned	Net Tax
1925........	$9,583,683,697	$1,170,331,206
1926........	9,673,402,889	1,229,797,243
1927........	8,981,884,261	1,130,674,128

The statistics for 1928 are not as yet compiled, while no returns for 1929 have as yet been made. These are to be made beginning March 15, next. The year for which the tax accrues is in general the calendar year. A considerable number of corporations and a comparatively small number of individuals, however, make returns upon a fiscal-year basis.

Unvarnished Figures

WHEN the security markets collapsed repeated assurances came from Washington that the country was "fundamentally sound." Just what this phrase meant was not always clear despite the voluminous reports emanating from official sources. Here is presented an analysis of the solidity of the business structure which reaches its conclusions by means of cold, unvarnished figures, interpreted by one whose work for years has been looking ahead.

That is, their financial year ends the last day of some other month than December. The tax accrued upon these fiscal years is included with the calendar year returns for the year in which the greater part of this fiscal year occurs. That is, the returns for the calendar year 1929 mean the returns for tax accrued during any year which ends after June 30, 1928, but not after June 30, 1929.

Acts as a Buffer

THE fiscal or business year of the Government ends June 30. The Federal income tax is payable in four equal quarterly installments, the first of which is due the fifteenth day of the third month after the close of the taxpayer's year. From this it is seen that the payment of income tax on account of any calendar year is made within two of the Government's fiscal years. That is, the principal payments to the Government for the 1929 income tax will be the first and second payments upon March 15 and June 15, 1930, or during the second half of the Government's fiscal year 1930. The third and fourth installments will be made September 15 and December 15, 1930, during the first half of the Government's fiscal year 1931. This means that a change of tax laws beginning with any calendar year affects the Government's revenue partly in two of its fiscal years, so acting as a buffer, tending to avoid too sudden a change in the revenues for consecutive years.

Continued Prosperity

THE tax received during the fiscal years 1927, 1928 and 1929, and estimated to be received during 1930 and 1931, as given in the annual Report of

the Secretary of the Treasury, are in the accompanying table:

Fiscal Years	Individual Income Tax (000 Omitted)	Corporation Income Tax (000 Omitted)	Total Income Tax (000 Omitted)
1927	$911,940,000	$1,308,012,000	$2,219,952,000
1928	882,727,000	1,291,846,000	2,174,573,000
1929	1,095,541,000	1,235,733,000	2,331,274,000
1930	1,090,000,000	1,390,000,000	2,480,000,000
1931	1,080,000,000	1,380,000,000	2,460,000,000

The Secretary's report does not segregate the total estimated receipts on account of income tax between individuals and corporations, so this segregation is made by the author.

This statement clearly shows that the Treasury sees a very prosperous year for 1930. That is, the total receipts on account of income tax, which amounted to $2,331,274,000 for the fiscal year ended June 30, last, will be much larger for the fiscal years 1930 and 1931, indicating continued prosperity.

Full of Meat

IN order to find the source of our prosperity, we must return to the "Statistics of Income for 1927." The accompanying table is so full of meat that it is here given in full. It shows the source of all income returned for taxes accrued during 1925, 1926 and 1927, together with the change from year to year.

Statistics of Income, Showing the Sources of Prosperity

Source of Income	Income Returned in Thousands of Dollars 1925	1926	1927	Increase in Income 1926 Over 1925 Amount	%	1927 Over 1926 Amount	%
Wages and salaries..	$9,742,160	$9,994,315	$10,218,450	$252,155	2.58	$224,135	2.24
Business	3,688,804	3,572,896	3,287,421	—115,908	—3.14	—285,475	—7.91
Partnership	1,827,026	1,732,581	1,755,145	—94,445	—5.17	22,564	1.30
Profits from the sales of property:							
Held not in excess of 2 years......	1,991,660	1,465,625	1,813,396	—526,035	—26.42	347,771	23.73
Held in excess of 2 years	940,569	912,918	1,081,186	—27,651	—2.94	168,268	18.41
Rents and royalties..	1,471,332	1,450,760	1,302,276	—20,572	—1.40	—148,484	—10.23
Interest and investments	1,814,402	1,936,604	2,026,897	122,202	6.73	90,293	4.66
Interest on Government obligations	25,651	36,782	47,480	11,131	43.39	10,698	26.10
Dividends of domestic corporations..	3,464,625	4,011,590	4,254,829	546,965	15.79	243,239	6.06
Fiduciary	305,806	333,365	421,481	27,559	9.01	88,116	26.43
Total.......	$25,272,035	$25,447,436	$26,208,561	$175,401	0.69	$761,125	2.99

The year 1926 was a more prosperous one than 1925, but this prosperity was somewhat spotted. In the first place, the largest increase in incomes of individuals was from dividends of domestic corporations. This increase amounted to over $550,000,000 to the 4,138,000 individuals making returns for 1926. The number making returns for 1925 was 4,171,000. On the other hand, the profits from the sales of property decreased, capital gains $27,000,000 and other sales of property, those held less than two years, over $526,000,000. Wages and salaries continued to increase normally, while the profits from individual business fell off about $116,000,000. This is doubtless due to the popularity of the corporate form of business together with the extension of the chain store system.

Partnership business also fell off. Interest and investments gained.

The income from salaries and wages returned for the above three years was about 39 per cent of the total income returned, and is increasing about normally. That from individual business is decreasing. For 1925 it was about 14½ per cent of the total income, while for 1927 it was about 12½ per cent. The maximum number of partnership returns was for 1924, when 321,158 such returns were received, while for 1927 this number was 287,841. Another source of income that shows a reduction is that from rents and royalties. This is because the high rents caused by the war-time slowing up of building is passing, and rents are being reduced.

Losses from Stocks

THE increase in the income tax returns from interest and investments, and from dividends, about $670,000,000 for 1926, resulted in a great increase in 1927 in money available for investment and speculation. This is shown by a further increase in the income returned from interest and investments for 1927 over 1926, and a change in the reduction from the profits from sales of property, largely securities, of over $526,000,000, to an increase in 1927 over 1926 of over $347,000,000. The income from dividends increased still further until in 1928, the income from this source returned was about $4,255,000,000. With a lower tax rate on corporations, and increased earnings for the year 1929 of over 10 per cent above 1928, there will doubtless be an income to individuals from dividends of about $5,000,000,000 in cash.

The table would indicate that whatever losses would be made from stocks during 1929 will be made up by increased income from other sources, so that the net income for 1929 will be as large, if not larger, than it was for the year 1927.

The sale of property is the source of income which, during the years 1927, 1928 and three-fourths of 1929, has increased abnormally, as already shown. All other sources, except dividends from domestic corporations, have either actually decreased or increased only normally. The income returned from these sales for 1926 was $2,378,500,000; in 1927 it was $2,894,600,000. The income tax on individuals actually received during the calendar year 1927, over 95 per cent on account of the tax accrued in 1926, was $859,239,000. The corresponding tax received in 1928 was $935,051,000, while that received during the calendar year 1929, estimated for December, was $1,248,000,000. That is, the individual income tax collected increased, 1928 over 1927, $76,000,000, and 1929 over 1928, $313,000,000.

A Stupendous Amount

IT is certain that this large increase in tax was derived from the only source of income that was increasing abnormally—the sale of property. Of this $313,000,000 increase in tax, probably $73,000,000 was the net normal increase, largely from dividends; about $90,000,000 was from increased capital gains, and about $150,000,000 from sales of property not capital gains. The gain in income from this source during the year 1929 up to October last, would have been fully $1,600,000,000 over 1928.

This is a stupendous amount, but it is probable that even more than this was lost since September by the sales of securities. It is probable that a large part of this was lost by individuals who pay no income tax, and by others who will pay none for 1929 because of these losses.

Had the collapse of the security market not happened during 1929, it is probable that the returns for individual income tax payable in 1930 would have totaled about $1,300,000,000, with a total income in excess of $30,000,000,000. This will, of course, be reduced, both because of the losses on sales of securities and of the effect of these losses upon other income. This tax returned will be somewhere about $1,125,000,000—somewhat less than was returned for the year 1928.

A Blessing in Disguise

IT is not probable that the profits from the sales of property held for less than two years will be as large for 1930 as it was for 1929, or even 1928. The effect of these losses upon other income will probably be only transient. There

(*Continued on page* 702)

A Brief for Independent Banking

By J. A. PONDROM
President, The City National Bank, Dallas, Texas

Increase in Minimum Capitalization for National and State Banks Asked to Give Necessary Strength to the Unit System. Conditions Creating Difficulties for Country Institutions in Past Believed to Have Been Mainly Outside Their Control.

Answering the Comptroller

A NATIONAL banker makes what is perhaps the first specific reply to the suggestions of the Comptroller of the Currency for branch banking in the national system and in so doing states the case for the independent banks from an unusual angle. This is a contribution to the unit, chain and branch bank controversy that disregards the appeal of sentiment in favor of the power of logic.

THE efficiency of independent, or unit banking, under which the commerce and industry of this country have grown, expanded and progressed, and its material wealth increased beyond any example of ancient or modern times, is being challenged at the bar of public opinion.

The challenge issues from those who favor the extension of branch banking, which means the concentration of the wealth and banking power of this country in one or a few large commercial centers, and perhaps the ultimate concentration of the vast banking resources of the country in the hands of a few gigantic corporations, as is the case in England and Canada.

Wholly Foreign

THE challengers are powerful in numbers, in wealth and influence, and they have been exceedingly active for several years. They seem to have the cooperation and support of the Comptroller of the Currency, who has in charge the supervision and management of the great national banking system and who, in a recent address at San Francisco, said, in effect, that so far as the rural communities were concerned there is a fundamental weakness in our present banking system and that he proposed to recommend to Congress the further extension of branch banking privileges.

The principal count in the indictment brought against independent banking, and indeed the only count that deserves any consideration, is the fact that some 5000 banks closed their doors during the past eight years, 1921 to 1928, inclusive.

Unless we can convince the American people, as unquestionably we can, that this epidemic of failures during the period mentioned is not necessarily incident to a continuation of unit banking, that a vast majority of them are directly attributable to causes other than economic conditions and other than mismanagement, inexperience and incompetence, causes that will not operate in the future, that many others are due to the laxity of regulatory laws and could easily have been prevented by ordinary prudence in regulatory enactments, it is very much to be feared that independent banking will be condemned and there will be substituted in its place a system of banking wholly foreign to American traditions and American ideals.

What Were the Causes?

NO detailed information is available through the light of which we may hold a post mortem on each of these 5000 banks and trace back from effect to cause and endeavor to ascertain the primary, secondary and contributing causes that produced each particular failure.

However, that is not necessary. The simple statistics quoted by the Comptroller in his San Francisco speech afford sufficient information to enable any skilled, experienced and intelligent practitioner to diagnose the case in bulk and to determine the several causes that produced this excessive mortality among banks during the period under review.

What were these causes? First, insufficient capital requirements in both the national and the several state systems. When the national banking system was created the minimum capital requirement was $50,000. In those civil war days $50,000 had more purchasing power and represented more wealth and substance than $100,000, or $150,000 does today.

An Alluring Occupation

SUBSEQUENTLY, instead of increasing the capital requirement as the purchasing power of the dollar decreased, and presumably in order to popularize the system, to enable it to compete with the various state systems for members, and to enable every village to boast the possession of a bank, regardless of whether it afforded sufficient business to sustain one, the minimum capital requirement was reduced to $25,000.

As a result, a national bank may be established today in the smaller communities with an invested capital which in substance and purchasing power represents about one-fourth or one-sixth of the sum that the framers of the act thought requisite to give the institution stability and to protect its depositors.

Many of the states when they came to enact banking laws and to set up banking systems went several steps farther in popularizing their systems and arranged matters so that any cross-roads might boast of having two or three banks, without any very substantial investment. They fixed the minimum capital requirement of $10,000, a sum less than is required to set up a first-class garage or filling station.

Banking is an exceedingly alluring occupation to those who have never experienced its responsibilities or its difficulties. The social prestige usually enjoyed by the bank's officers, the glamor of commercial leadership, the limited hours of employment, the apparent simplicity of the business and the false impression that it is highly profitable are all calculated to attract and tempt the uninitiated.

When a franchise to become a custo-

dian of the community's liquid wealth is readily and sometimes eagerly granted to any group of reasonably good character, that may be able to assemble $10,000 or $25,000 is it any wonder that many perfectly honest and well intentioned, but inexperienced and imprudent, people, undertake the business without any reasonable prospect of success? Is it any wonder that hundreds of banks are organized under conditions and surroundings that do not warrant their existence, where they are foredoomed to failure?

The Comptroller says that:

"more than 70 per cent of the failed banks were capitalized at $50,000 or less,"

and according to his reports for the years 1927-1928, more than 50 per cent of the national banks placed in liquidation were capitalized at the minimum amount, namely $25,000.

What do these figures signify? It seems to me they clearly indicate both the disease and the remedy. The minimum capital requirement is entirely too small and should be increased, both by state and national authorities. No man or set of men should, in this day and time, be licensed to receive and use for their own benefit, other peoples' money without being required to back their integrity, their judgment and their discretion with something more substantial than $10,000 or $25,000.

Would Put Them On Inquiry

The Comptroller says:

"There are those who have advocated stronger capitalization and more capable management for the country banks. This doctrine has been preached for years without avail for the simple reason that the local business is not of sufficient volume to justify the larger capital or the employment of a more highly trained management."

MORE capable management would follow stronger capitalization as naturally as day follows night. If twenty men are induced to contribute $500 each to the capitalization of a bank at the instance of some one seeking a job with the proposed bank, no one has a sufficient financial interest to care whether the management is proper or not, but if the required capital were $100,000 the promoter would hardly be able to make it up with $500 contributions. Some one or several persons would necessarily have to make a more substantial investment, sufficient to put them on inquiry as to the qualifications, the judgment and the capacity of the proposed management and the sufficiency of the business available.

In speaking of banks, strength does not necessarily imply great bulk or size, but rather it implies liquidity and convertability of assets. It is of course conceded that the smallest capitalized bank can be as strong in its ability to meet its own obligations as the largest bank in the world. No one can deny that there are many banks with small, even minimum capital that are prudently and economically managed, their assets are liquid and their capital sufficient for all purposes, but they are the exception, not the rule.

Set Up Like Cafeterias

LIQUIDITY of assets means poverty of income, for prime investments yield small returns, and a substantial volume of deposits is requisite to meet overhead if liquidity is maintained. The trouble lies in the fact that the capital qualification is so easily met that banks are set up almost experimentally, like cafeterias or lunch stands. If a sufficient volume of business is obtained and the management prudent, well and good: if the volume is not sufficient, however prudent the management, there is a failure ahead.

In his address at San Francisco the Comptroller said:

"A study of bank earnings covering the last two or three years shows that a large percentage of banks outside of the principal cities are operating with insufficient earnings, that in 1927, 966 national banks operated at a loss and an additional 2000 earned less than 5 per cent, and in 1926 about 2000 state banks operated at a loss."

This should occasion no surprise to anyone at all familiar with the history of banking in this country during the past fifteen years. It is but the natural and logical consequence of events connected with the development of the Federal Reserve System.

It will be borne in mind that practically all banks outside the principal cities depended largely upon, and fully enjoyed until about 1918 or 1919, a source of revenue and earnings that banks everywhere had enjoyed from time immemorial, and still enjoy the world over, namely "exchange" earnings, which frequently amounted to from one-fourth to one-half of the banks' entire revenues.

Still Struggling Along

IT will also be recalled that about 1918 or 1919 the Federal Reserve Board undertook to enforce what is known as the "par collection system," both upon member and non-member banks, and in a drastic manner, through which "banks located outside the principal cities" were almost overnight deprived of a substantial source of revenue which they had always previously enjoyed, a loss moreover that no amount of wisdom or foresight could have anticipated.

That this major operation on our bânking practice weakened country banks exclusively, is evidenced by the Comptroller's comments concerning their earnings. If further proof is required it will be found in the fact that the failures became numerous shortly after the operation and that in no previous period have failures among country banks so vastly exceeded those among city banks.

Obviously many, many of the failures under discussion are directly attributable to the loss of earnings to country banks occasioned by the "par collection system," and it should occasion no surprise to find that thousands of other banks similarly situated are still struggling along with insufficient earnings. This is confirmed by the Comptroller himself when he says in the same speech:

"The inability of many country banks to earn a fair profit upon invested capital is naturally reflected in the larger number of failures which have occurred during the past eight years."

Through Iron-Clad Rules

THE earnings of banks in the principal cities were not adversely affected by the par collection system. On the contrary, those banks became the beneficiaries of that system. Through reciprocal accounts they generally effected their mutual exchanges at par, or at a nominal cost. It enabled them to pass on to the Federal reserve banks a heavy burden of expense incident to the collection of country checks and through the iron-clad rules governing the conduct of members of their powerful clearinghouses they are able to exact remuneration for services that the country banks must render free.

I have no disposition at this late day to contend either for or against the par collection system. That, I take it, is a closed incident, but I submit that it is hardly fair or generous to the independent country banker to deprive him of a good part of his income and then inform him that because of the poverty of his income there is something fundamentally wrong with the system of which he is a part, and as a remedy, suggest that he be supplanted by branch banking.

Ultimate Embarrassment

ANOTHER cause that contributed liberally to the failures under discussion was the existence in certain states of what are known as "Guaranty of Deposits" systems, which seem to have guaranteed nothing but the ultimate embarrassment or failure of all concerned.

Eight states set up these systems. At first the number of banks in these states increased abnormally, but experience developed weaknesses, which prudent bankers had foreseen and pointed out from the beginning. Many of the more solvent banks withdrew and obtained national charters, and during the eight years ending in 1928, practically all of these systems either failed to function successfully or actually collapsed, involving the failure of many banks.

These guaranty systems exemplified chain banking in its highest and truest form. Every bank was required by law to contribute to the protection or payment of the deposits of every other bank

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Night Stores

By JOHN ALLEN MURPHY

American Prosperity Produces New Trends in Retailing Which Offer Workers Opportunities for Shopping at Hours When the Plants and Offices Are Closed. High Wage Levels Cause Urge to Spend Which Finds Other Outlets Than Merchandise Stores

Saturday Night

OLD fashioned Saturday nights when wage earners went shopping are being revived. A definite movement toward night stores is evident. This development, described in the accompanying article, is of peculiar importance to banks in view of its relation to the volume of merchandising maintained throughout the country and particularly at this time when the question of sustained buying power means so much.

HIGH wages and a short working week have come to be regarded as a prosperity formula in this country.

Pay workers well and give them enough leisure to spend their earnings, is the economic philosophy that Henry Ford has been preaching for years. This philosophy is now widely accepted both by economists and employers. It seems to be President Hoover's working principle. As Secretary of Commerce and now as President, he has often suggested that business stability can only be attained by providing steady employment for labor, and a chance to enjoy the fruit of its work. Since the late stock market tumble, the President has been urging leading industries and utilities to put this economic doctrine into practice—to keep up employment and not make wage reductions.

Saved Room Rent

AND of course this is sound economics. There can never be too much production, so long as society is geared up to the point where it can gratify its wants. Depressions are a result of a retrenchment in spending. This may be due to unemployment, to wage cuts, to some flaw in the machinery of distribution or to some other cause that upsets the equilibrium between production and consumption.

One of these upsetting factors concerns a condition in distribution to which altogether too little attention has been paid. The average worker is not given a sufficient opportunity to spend his money. The hours that stores are open closely parallel the working hours of the wage earner. When factories and offices close, so do most stores. Some stores may stay open an hour or so longer, but not long enough to give working people a chance to buy conveniently.

The period that retail stores are open has been undergoing a gradual reduction, just as have the working hours in all trades and occupations. Time was when stores were open at least eighteen hours a day, usually from six in the morning until midnight. In those days the junior clerk often slept under the counter, where he not only saved room rent, but was ready to serve a customer, regardless of what hour he showed up. Many men who later attained eminence in the mercantile world got their start in this way.

Impeding and Curtailing

STRANGE as it may seem, these day-and-night stores were not as necessary in the old days as they are now. Then most people were not tied down to hard-and-fast hours. If the occasion demanded they could knock off work and put in a morning or an afternoon in leisurely shopping. This is no longer possible. If a present-day office or factory allowed employees to go out on a buying expedition every time the spirit so moved, our places of business would be demoralized. Hence most workers, if they shop at all, must do so during the noon respite or after hours.

The fact that most of the salespeople in many different kinds of stores are members of the gentler sex is one of the principal reasons for short store hours. Many states regulate the number of hours a woman may be employed. As a rule, the maximum time permitted is forty-eight hours a week. This means an average of eight hours a day. This explains why big stores do not open until 8:30 or 9:00 o'clock and close at 5:30. They are no longer open Saturday evenings, as was the universal custom a few years back.

In any event, this abbreviated store-day is having a far-reaching effect on business. It is both impeding and curtailing distribution through regular stores. It is helping those businesses that distribute through irregular or ununusual trade channels.

Women Do the Buying

PROBABLY the most pronounced effect of short store hours is that the buying of all sorts of goods has been thrown into the hands of women. Nearly everything for the home, for the family, for the garden, for the car, whether necessities or luxuries, is now bought by women. They even buy their men's clothes. They have become the purchasing heads of the household. They have taken over the buying job for the family not because men do not like to buy, but because they haven't time. When their plants or offices close, stores are also putting up their shutters. If their wives or mothers or sisters didn't buy for men, they would be hard-pressed to carry out President Hoover's economic philosophy.

When women do buy they favor the department type of store and the grocery store. This preference of women explains a number of things that are happening to business. It lets us in on some of the troubles of men's furnishing stores. It is claimed that 65 per cent of all men's shirts, socks, ties, collars, underwear and similar goods that are sold is bought by women. And the women are taking this business to the department stores. It is no wonder that many men's wear dealers are trying to convert their establishment into miniature department stores. The usual procedure of this kind is to stock women's goods in men's stores with the thought that if women could be induced to come in for

merchandise for themselves, they will also buy stuff for their men folks on the same trip.

A number of men's stores have stocked women's sports apparel. So far, though, this plan has met with only indifferent success. The most pretentious effort to interest women in men's stores was recently made by leading clothiers in New York City. This chain has opened full-fledged women's departments in several of its stores. Considerable space is given to this new department. Half of the window displays are given to it. Conspicuous stress is put on the women's line in the company's merchandising. While the venture has attracted much notice, it is too soon yet to say whether it will be successful in accomplishing its objective.

At Bargain Rates

OF course it is only natural that the grocer's patronage should be made up almost entirely of women. A curious corollary of this patronage, though, is that women are giving the grocer, particularly the chain grocery, a tremendous business on articles that would ordinarily be bought by men. The cigarette is an example of such an article. The sale of cigarettes in chain groceries is unbelievably large. In some stores it composes ten per cent of the total turnover. The success of the grocery chains with cigarettes has been playing hob with cigar stores.

It has been said that the grocer's large sale on cigarettes is due to women smoking. This has something to do with it, but by far the larger proportion of the sale is to women who are buying cigarettes at bargain rates, for their husbands, brothers, fathers or sons.

Women have also induced grocers to carry safety razor blades and shaving creams. The chains which are pushing these items are doing an ever-increasing business on them. The percentage of blades sold to women is still well below the 50 per cent mark, but it is climbing rapidly. An interesting fact about the sale of shaving cream to women is that they favor the brand put out by a French perfumer whose line of beauty goods is extensively used by women.

The hardware store is another illustration. Many hardware dealers in their desire to cater to feminine trade now feature kitchen utensils, electrical appliances, paints, sporting goods and garden merchandise in place of the mechanics' tools, builders' hardware and contractors' equipment that they formerly played up.

Male Approval Wanted

IN a general way this tendency for women to do all the buying applies more to shopping goods than it does to major merchandise. Women will buy neckties, shirts, toothpaste, hair tonics, cigarettes, pajamas and fountain pens for men but they will not undertake the responsibility of purchasing furniture, rugs, radios, motion picture cameras, canoes or any other article that runs up into big money. When things of this character are bought the "little woman" usually likes to have the man of the house along to back up her judgment.

That seems to be the main reason why the volume of the country's department store sales are practically at a standstill. To be sure, the sales of these stores are increasing, but not anywhere in proportion to the increase in population or to national income. Housewives are able to turn their trade on apparel for men, women and children to department

stores. They are succeeding in switching their business on notions, novelties and knicknacks in general in the same direction. But on merchandise requiring male approval, department stores appear gradually to be losing out.

The reason unquestionably is the short working day that big stores observe. Few men would have the nerve to ask their employers for a couple of hours off "to help the wife select a rug." As a result the rug is not bought. Here we have an explanation of why the sale of furniture and home furnishings are out-of-line with the sale of automobiles, radios, toilet goods and other well-merchandised stuff.

Primal Necessities

A SURVEY which the Department of Commerce made in eleven cities indicates that in some communities the automobile has nosed out "shelter" in the distribution of the family budget. Food, clothing and shelter have been the three great primal necessities all through the ages. Now the automobile is shoving shelter into fourth place. In other words, people seem willing to pay more to keep up their cars than they do to maintain their homes. Actually, the fault is not with the people. Merchants are to blame for it, as will be presently shown.

The short hours that big stores or the so-called downtown stores are open virtually eliminates many articles from their stocks, or at least handicaps them in dealing in these articles. Candy is an item of this kind. Children buy candy on their way to school in the morning. Both children and grownups buy it during the noon hour. Most candy, however, is sold in the evening, long after the downtown store is closed.

The Photomaton Corporation had an illuminating experience with department stores. When this automatic picture-taking and picture-finishing machine was first placed on the market, it was located in department stores. But the company found that when people began to get in the picture-taking mood in the later afternoon the store would close. So Photomaton opened its own stores and has been quite successful in operating them. These shops do most of their business in the evening. Many of them are open until midnight and after. The Photomaton machine on the ocean liner Berengaria does a thriving business around two o'clock in the morning.

Money Itches the Palm

THE Eastman Kodak Company had a similar experience. In the early days a large part of its camera-supply business was obtained through department stores. Gradually, however, it was discovered that people like to leave their films to be developed on their way to work in the morning and to buy their supplies in the evening or on Sunday. This means that druggists and stationers had to be developed as outlets.

Merchants are cognizant of this situation, but only a small percentage of them seem disposed to do anything about it. They appear to labor under the delusion that if they do not get the wage earner's humble sixpence one day they will get it the next. That is decidedly not true, however. Money itches the palms of most folks. They must spend it. If they cannot buy merchandise with it, they will get rid of it in other ways.

Let us examine some evidence in support of this statement. One reason for the popularity of the automobile is that it enables folks to get away from home and to spend money in the evening, on Sundays and on holidays. There are in a neighborhood of a quarter of a million garages, service stations, refreshment stands, roadhouses, wayside stands, tea rooms, antique shops and gift emporiums catering to these motorists. These places are open when regular stores are closed. They thrive on the pleasure-hours of the wage earner. There is no telling how much business this quarter of a million roadside retailers do, but it would be difficult to exaggerate it. Most of this business is done at the expense of the nation's downtown stores. People who spend their money at hot-dog stands and at wayside gift emporiums have not enough of the pay check left with which to buy rugs or draperies or heirlooms for the next generation. Thus we have an explanation of why the automobile has become more of a necessity than the family roof and fig tree, in the lives of numerous persons.

Teaching His Competitors

THIS is not stated in a spirit of criticism. The roadside retailer is a legitimate merchant. He is entitled to any business he can get. Instead of criticism he is entitled to commendation for his enterprise. He is teaching his big competitors in the cities a trick or two about how to cater to the present-day eager-to-spend wage earner.

In those parts of the country where the wayside vendor does not abound and stores are not open at nights and on holidays, other means of gathering in the worker's money have been devised. In states where there are no anti-lottery laws, there are baseball pools, games of chance and other gambling schemes. It is a common thing for a baseball pool for a single day to reach a total of $50,000. There are towns of 15,000 people where a chance game, which is usually conducted by Chinese, will run up a pool of $30,000 in one evening, or more than the largest store in that town will do in an entire week. These pools draw their support almost entirely from workingmen. If the stores in these towns were not so eager to draw their blinds, they would unquestionably get some of this easy money.

Just as water will seek its own level, people will spend their money where it can be spent with the least effort. During the bull stock market that existed for a couple of years, we witnessed a fine example of how people will put their money to work if they are given a chance. We saw waiters, manicurists, chauffeurs, barbers, clerks and people in every class of life playing the market. Millions of wage-earners got into this game simply because it was easy for them to do so. They did not have to leave their work. Once they opened an account, they could step into any telephone booth and in two seconds pledge anything from a hundred dollars to a million dollars.

After the Same Dollar

RETAILERS should begin to realize that they are not in a position to compete for the consumer's dollar with the other businesses that are after the same dollar, unless they make it convenient for the public to buy. Stores that are open only during the same period of the day that the average wage-earner is working are not making it easy for workers to buy. In the long run these stores are bound to lose out to those mercantile establishments that let their open-for-business hours lap-over into the leisure time of the majority of workers.

The drug store was probably the first retailing institution to appreciate that people like to buy during off hours. At first drug stores stayed open evenings and on holidays so as to cater to people who were sick. Later when they found their customers asking for all sorts of articles that do not ordinarily belong to a drug store, they cautiously stocked some of these things, merely as an accommodation. Eventually this extraneous merchandise became the most profitable goods in the store. Then most druggists threw the throttle wide open and thereafter stocked anything that they thought they could sell, no matter how far removed it may have been from the original drug store merchandise. Today most drug stores are veritable department stores. They are succeeding because they offer the public a chance to buy many needed articles in off hours.

Stay Open All Night

MANY of the big gas service stations, particularly those operated by the large refineries, such as the Standard Oil companies, are taking a cue from the drug stores. Many of these stations stay open all night. All of them at least remain open until late in the evening. These stations are discovering that in the small hours of the morning

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Bank Management and the Examiner

By ARTHUR B. MASON

Some Things the Supervisor Sees That Come Within the Realm of Management But Present Difficult Problems for Solution by Country Banks. Cows Not Always Good Security for Loans. Many Endorsers May Mean Slow Pay. Sympathy Is Not Security.

In the Country

IN the farming districts sound bank management faces peculiar situations which would seem merely minor matters to big city institutions but which are of vital importance to the smaller banks. Examples of representative problems of country bank administration are presented here from the standpoint of the examiner, who sees only results but is always concerned with cause as well as effect.

IN the larger cities, where banks are of greater size, the problems of bank management are nearly all major ones. In smaller banks in the country districts some of the situations the bank examiner sees reflecting management problems might appear trivial or perhaps humorous to the larger institutions. But a banking business demands good management regardless of size.

The examiner in his round of visits to the banks in his territory sees management methods from a viewpoint that is all his own, standing as he does on the same side of the counter as the banker, yet nevertheless looking from the outside in. From the very nature of his duties the examiner obtains a complete insight into the management problems of the country banker.

Everything But Cash

IN the western states, for instance, it often happens that the original owners of the lands took them up under the old Homestead Laws, cultivated them and became prosperous from the results of such operations. Having amassed a competence, they wish to retire and spend the balance of their days in ease and generally go South where the climate is milder. To this end, they rent out their ranches generally on the basis of one-third of the crop as a rental, and the tenant is very often a man of small means, having little beyond the usual numerous family, a few head of live stock, and a world of good intentions, backed up by a reputation for being honest and industrious.

So, having come to an agreement with the landlord, the tenant hies himself to the bank and explains matters to the banker, showing him that he has everything that will be needed, barring some cash and a little equipment. That is all he lacks, just cash and equipment.

As it so happens, the banker has an old outfit on his hands, left over from financing an exactly similar case a year or two before, and he sees a chance now to get it working again, so he shifts the chattel mortgage liability from the old operator to the new prospect, advances some cash for operations and tells him to go to it.

If Nature Is Kind

THE ultimate success of such a venture, even granting that the operator is possessed of all the qualifications that go to make a success, depends to a very great extent upon very uncertain factors, namely, the life expectancy of the borrower, his freedom from either disabling accidents or sickness, either of himself or members of his family, and last, but not least, if nature will be kind to him and grant favorable conditions under which to raise his crops on land probably already impoverished by the former owner through constant cropping.

Of course, all these factors enter into any farming operation, but while that fact is true in the case of the average renter who has little at stake beyond his time and efforts, the bank is taking all the risk and will have to take the loss, if any.

As the landlord risks the least and stands to win the most, it would seem only fair that he should indorse his tenant's notes, in order to protect the bank. That this is seldom found to be done, is, very probably, the fault of the banker, who appears to hesitate to request it of the land owner.

Then there are what might be called sympathy loans. Such loans as come under this heading are generally small ones, where the applicant in some mysterious way has managed to touch the banker's heart, a proceeding which is commonly considered as being almost impossible, and the resultant loan frequently becomes one of the bank's fixed assets.

Unrequited Affection

MRS. BROWN'S case is illustrative: she has a note in the pouch, and as her husband is also a borrower of the bank in no inconsiderable amount at times, the natural inference is, on the part of the examiner who sees it, that, in some way or other, the two lines are connected, and if such is the case it often means an excess loan.

Inquiry, however, develops the fact that Mrs. Brown has a brother, a somewhat worthless sort of a fellow, who has got into some trouble, and his sister very naturally wants to help him out, but is compelled to do so without the knowledge of her husband, who has little use for the brother. So she tells the banker that she will scrimp enough from her monthly allowance for household expenses to enable her to make small payments and eventually in this manner take up the note.

Realizing that he is now treading on dangerous ground, the examiner makes bold to ask:

"Suppose she cannot do this, or her husband gets wise, then what?"

"Oh! Well, Brown wouldn't see the bank lose! He would pay it if we had to have the money." Thus, in his very answer the banker admits that collection is not to be asked of Mr. Brown unless the bank "has to have the money."

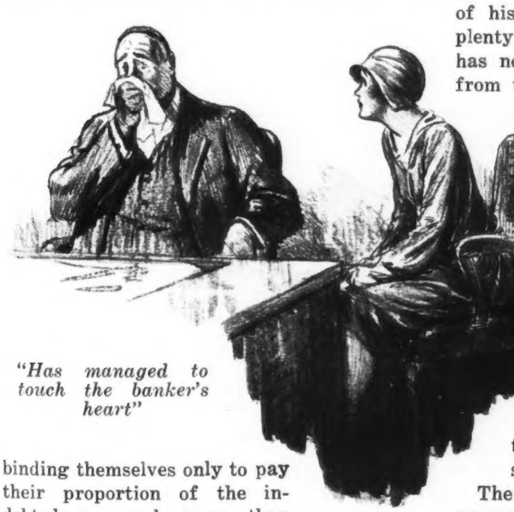
Perhaps the banker, in his salad days, may have had an unrequited affection for Mrs. Brown, before Brown beat him to it, and some sense of loyalty to a "first love" may have been the governing impulse to the granting of the loan. But no matter what the reason, the examiner may feel pretty sure of getting into hot water if he questions the banker much further regarding the line.

Safety in Numbers

COMMUNITY loans create another problem prominent in many a small bank's note pouch, and yet, as a matter of policy alone, the bank feels almost compelled to make these loans, even if they know the collection of them will be difficult, to say the least.

They are generally for some local public purpose, the financing of a Chautauqua course, purchasing new uniforms for the local band boys, or buying a new carpet or organ for the church, and are always made "good" by the indorsement of anywhere from two to eight or even more individuals.

It is an old saying that safety lay in numbers, but in this instance, while we may find the element of safety present, it is quite another matter to attempt to "cash in" on it, for we will probably find that the indorsers are all laboring under the delusion that they were each binding themselves only to pay their proportion of the indebtedness, and even then they do not want to pay unless all the other indorsers pay also.



"Has managed to touch the banker's heart"

Out of, say eight indorsers, on an average, six will be found amply able to pay the entire obligation themselves if they would, but (and this is an important "but") it so happens that every one of the six responsible indorsers are valued customers of the bank, with a large circle of acquaintances which they influence to a more or less degree. The banker, quite rightly, hesitates to antagonize any of them by calling the loan, knowing from past experiences that any such action on his part may cost him a friend, if not make another enemy.

The Champion Endorser

THE same rule is nearly always applicable to any loans made on the strength of personal indorsements. Even where there is a distinct understanding at the time the loan is made that the indorser in all likelihood will have to pay, collection is often difficult from that source and productive of ill feeling.

Maybe he is the bank's champion indorser. Almost every bank has one. And, furthermore, he is quite often a director of the bank as well.

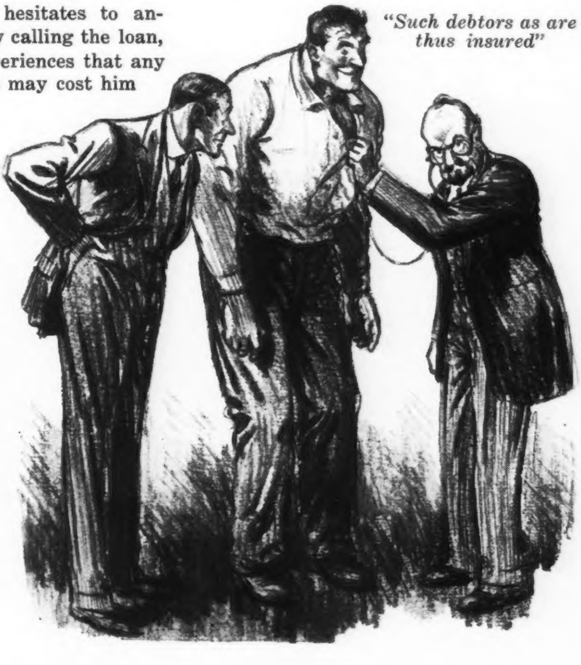
From his financial statement you can see he is a man of substance, the only drawback being that a closer analysis will show his net worth to consist mainly of fixed assets and stock in the bank. He would probably be able to make all of his indorsements good if given plenty of time and if his bank stock has not been too much depreciated from the bank having to carry too much of the same kind of paper.

Pen Paralysis a Blessing

NATURALLY, the banker does not feel like criticizing his statement, when, by so doing, he might be casting slurs on the value of his own bank's stock.

The indorser is generally of a magnanimous nature and generous to a fault, a very staunch friend of the bank, whom the banker hesitates to offend by requesting him to take up his indorsements.

His many sterling qualities appeal to the examiner and compel his admiration, but just the same he feels that an attack of pen paralysis might be a blessing in disguise if it would be the means of preventing him from indorsing his entire net worth away.



"Such debtors as are thus insured"

Suggestions from the examiner as to curtailing these indorsing activities do not seem to meet with the unqualified approval of the banker, and the examiner can only sigh and go on to the next line.

The Second Mortgage

WHERE the second mortgages are found in the bank's pouch, it is nearly always because they have been taken in order to bolster up some doubtful line and as a last resort. It rarely happens that the mortgagor will fail to borrow all that the property will stand under the first mortgage, while on his part the mortgagee certainly has loaned all that he thinks safe, basing his estimate on what he thinks the property would bring if sold under the hammer. Under these circumstances, with one borrowing all he can and the other loaning all that is safe, one can see that the equity as represented in many of these second mortgages is very, very thin to say the least, and, in fact, is much more apt to prove a liability rather than an asset to the bank.

The line of Elijah Peabody is typical: Elijah drifts into the country one bright spring day, looking for new fields to conquer, and decides to remain in this section, at least as long as his credit is good. He is accompanied by Mrs. Peabody and four little Peabodys ranging in age from one to eight years, the

usual assortment of mongrel dogs, a few head of live stock and some farm equipment, the latter apparently having seen some pretty hard service.

One of the deciding factors which induced him to remain was the benevolent appearance of the local banker and his very evident anxiety to have him stay. Besides this, Elijah is a pretty good judge of bankers, and thought he detected signs in this one of a willingness to help financially. Anyway, he explains to the banker that he wants to rent a section of good land, on the usual crop rental basis; and as it happens, the bank has a customer named Williams who owes them and has a section of land but is unable physically to farm it himself. Why not have Williams rent his land to Peabody, and thus kill two birds with one stone: get Peabody settled and put Williams in a way to pay what he owes to the bank?

Elijah Against the Field

SO the deal is consummated. Elijah rents the land on a one-third crop basis from Williams. Then, in order to farm it as it should be farmed, Elijah suddenly discovers he is somewhat short of needed equipment and, of course, the banker loans him the necessary funds for that purpose. Everything being set, the race is on, Elijah against the field, and apparently with a good start.

He is industrious and nature has smiled upon him, blessing him with not only good crops but good markets as well, and he seems to be making some headway at last. But it appears that during a few fat years nature has smiled upon him in other ways, and Mrs. Peabody has meanwhile presented him with three new little Peabodys, which has been the cause of added expense, and means that many more to feed, clothe, and eventually educate. Besides, he has found it necessary to buy an automobile, invest in a combine and make a few needed improvements on the ranch, and the result has been that little, if any, reduction has been made on his line at the bank.

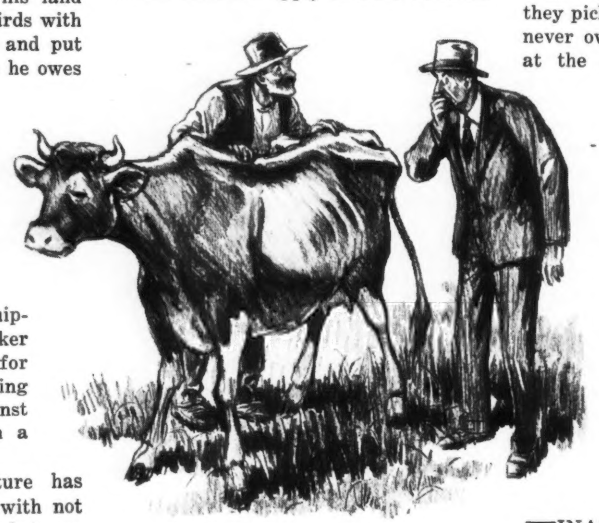
Comes the bank examiner, who having become well acquainted with the Peabody line during the past few years, remarks:

"Well! Well! Here is our old friend Elijah again. When is that bird ever going to clean up?"

The banker then proceeds to recite the history of the line, which he has by this time committed to memory (and so has the examiner), but some how or other it fails to go over very big this time, and the examiner intimates that unless the line can be secured, the loan will be subject to a much more severe classification next time.

Time Passes

SO, immediately after the examination, the banker gets in touch with Peabody, explains the situation to him (which Elijah has been expecting him to do for some time), and as Williams has not paid anything on his line either, the banker calls him in also. Between the three of them a solution is arrived at that appears to promise results, as follows: Elijah will buy the ranch from Williams, increasing, if possible, the amount of the first mortgage, in order that he can pay Williams a little cash, who in turn can apply to his debt at the



"One brown cow named Maud"

bank; then Elijah will give the bank a chattel mortgage on all he has and a second mortgage on his ranch, in this manner securing his debt as required by the examiner, which it is fervently hoped will keep him quiet.

The program is carried out with the slight exception that it was found that Williams had other secured creditors, of whom the bank knew nothing, so they got what ever cash there was in the transaction, and the bank received nothing.

Time passes, and each year finds Elijah a little further from his goal than he was the previous year, and he himself is beginning to show signs of wear and tear. His hair is streaked with gray, lines of worry appear in his face, and the patches on his overalls even appear more prominent, as the original fabric fades from repeated washings. Payments on the first mortgage are behind, and these, with taxes, interest and his running expenses are now more than he can meet and beyond his earning power to produce.

The Pick on Ole

NOW comes the time when the bank is compelled to protect itself, if possible. They foreclose on Elijah, assume the first mortgage and the famous Peabody line appears in the Claims and Judgments until such a time as all the necessary legal requirements have been met with, when it is carried over into Other Real Estate Owned.

Here it rests until such a time as either the statute of limitations applies or some examiner requests its removal or sale. The bank at once approaches one of their customers, Ole Olson by name, and persuades him to purchase the land on a contract for the amount which the bank is involved. One reason they pick on Ole is because so far he has never owed them any money, and while at the present time his finances are practically nil, he is a hard worker and might make a go of it at that.

So here we find again in the note pouch our old friend, the second mortgage masquerading as a real estate contract, and the sad part of the whole affair is that during all this time the bank has been unable to secure any payment on the principal of either Williams' or Peabody's notes, and even the interest for some time past has been added to the principal of the renewals.

Far From Deceased

FINANCIAL statements are some times submitted in support of a loan, showing as the main and nearly only asset of any value the borrower's "undivided one-fourth interest in his father's estate."

His share, "one-fourth," represents a fairly substantial amount, and would amply justify the loan under consideration if it were not for one more or less unfortunate thing, and that is, that his father, far from being deceased, is well and strong, enjoying the best of health and conserving his energies by retiring from business and taking life easy. And that is not all, by any means, for we learn that the borrower's health is far from good with the chances better than even of his passing out of the picture before his father. In view of the further fact that the relations between father and son are somewhat strained by reason of the son going into a business venture against his father's wishes, for which, by the way, the bank loaned him this money, the examiner feels that it is barely possible that the son and the bank might lose out if they count on the old gentleman en-

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Money at Mischief

By LUTHER L. BLAKE
President, Standard Statistics Company, New York

Individual and Corporation Loans to Security Markets Given as Example of How Idle and Uncontrolled Capital May Wander Into Dangerous Practices. Experience Now Shows the Relation Between the Business Situation and Such Lending.

IF I, or my firm or corporation, have $1,000,000 on demand deposit in bank and if the loan rate on security collateral return a larger yield than I can hope to get immediately from its investment in my business or from any other form of permanent investment, then the temptation to have the bank lend my balance on call for my account is not only natural but almost irresistible.

The process seems easy. Instead of letting the money lie idle, drawing only 2 or 3 per cent, while my banker gets all the cream of lending profits, I merely instruct him to lend my own money for my own account, paying him a commission for his service.

Ten Times Cash

I MAY not stop to consider that in the ordinary process of banking, the cash reserves of my bank are being used as the base of credit many times the amount of such cash reserves and that in order to accommodate me my bank must find at least a portion of my $1,000,000 credit in actual cash. It cannot lend my deposit credit.

That deposit is a liability and long experience has led the banker to believe that, except in periods of extreme emergency or actual panic, its customers will not demand any unusual proportion of cash against their deposit credits. The bank has ample resources in the form of loans, investments and other assets to meet any reasonable call for cash—in fact these resources are greatly in excess of all its liabilities—but the percentage of cash is a very small one. The more cash in proportion to other assets it keeps the less accommodation it would mean to me and my business associates when credit was needed.

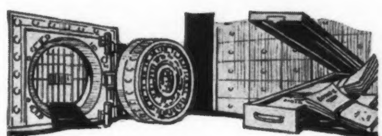
The law of the land recognizes this fact and encourages the banker, under strict government supervision, to make his cash reserve work many times as a base of credit, with the result that bank loans are something like ten times as large as cash reserves.

It is true that if a large number of my business associates are as quick as I am to seize this opportunity to make their bank balances earn larger returns, the banker might be placed in an embarassing position. The continued success of his bank depends in large measure upon my good will and that of other depositors and if he should demur at my request I might think him selfish and unaccommodating. I am looking at the matter purely from my individual viewpoint.

The money is mine to do with what I will and the fact that thousands of other depositors are making the same demands upon the bank "is not my funeral." I am unlikely to take a broader view of the general economic consequences of my action in common with that of other depositors, because I am not versed in banking and economic problems. Besides I have never met a similar situation before. On this face it presents an opportunity which, if neglected, might reflect upon my business acumen.

In the light of my business experience I might have had some misgivings as to the soundness of a stock market which appeared to thrive on high money rates, but I am reassured by the published views of men "who make a business of knowing about such things." Not only are stocks booming and the margins against my loan seemingly ample, but I have employed a responsible, experienced and expert lending organization as an agent to safeguard my interests.

I may reason that, if my business associates are as relatively well off in the matter of bank balances, the stock market might eventually become independent of the banks. I have read predictions by the same "people who ought to know" that stock market loans could probably expand to $10,000,000,000 instead of the paltry $5,000,000,000 or $6,000,000,000 being currently loaned.



Double Interest

RECENT stock market developments have provided the basis for the future guidance of the country in respect to call loans for the account of others. It is now evident that a steady expansion of this type of loan is not merely a matter of concern to bankers but is of direct importance to the business man. Realization of the double interest in the source of supply of funds for the call money market may, perhaps, prevent a repetition of what has lately taken place.

Into Economic Morasses

BUT so far as I am concerned I have no idea of making a business of lending money on the stock exchange. Only as long as I can get 8, 10 or even 15 per cent for money that I do not want to use otherwise at present, will I be willing to continue lending. Moreover, at the least sign of trouble I will call in my loan and be in a position to take advantage of any exceptional speculative or investment opportunity that may be presented on the stock exchange or elsewhere.

The foregoing fairly represents the psychology and reasoning of the average outside lender of funds on the New York Stock Exchange.

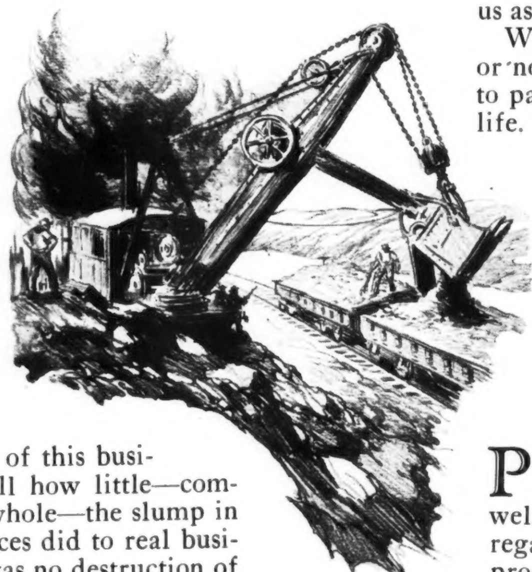
A recent psychological work dealing with the vagaries of the sub-conscious mind is entitled "The Mind at Mischief." That work emphasizes the dangers of an idle or misdirected conscious mind. An economic treatise on individual and corporation loans to the security markets might aptly be called "Money at Mischief." The analogy is perfect. Just as the idle and unguided subconscious mind is likely to wander into dangerous mental labyrinths, so idle and uncontrolled capital may stray, by the path-

(Continued on page 705)

The Tools of Our Trade

THERE is an old country legend that once upon a time a mad dog bit a wheelbarrow, and that the village folks, taking counsel one with another, chained up the wheelbarrow lest it, too, should become mad and go charging through the country leaving death and destruction in its wake.

When we contemplate the abundance this country possesses of all the necessaries of life, the gigantic needs of the population as a whole for its daily bread, its daily mileage, and a thousand other "dailies"; when we think of the tremendous momentum of this business and after all how little—compared with the whole—the slump in stock market prices did to real business (for there was no destruction of manufacturing enterprises, plants, buildings, railroads, steamships, or commodities) we cannot avoid the thought that any widespread fear about the future of the business of this country is like chaining up the wheelbarrow!



The mad dog of speculation has run his course. Business is in no danger of being infected with the germ of that madness. We have, moreover, our Edisons and thousands of other creative minds digging out new methods, and new wealth in which we all will share just as we all share in the benefits of the electric light, and of the telephone.

In our hands we have all the tools of our various trades, all the mines, forests, fields, factories, ships and railroads, and a brand new year stretching away before us—which new year is in effect a character loan to the greatest among us as well as the least!

Whether we like it or not, all must work to pay on this loan of life. That is a solemn obligation, as well as the highest of all privileges, and he who puts most of service in its broadest sense into his efforts, best pays that debt.

PERSONAL accumulation may well and safely be regarded as a by-product of that service.

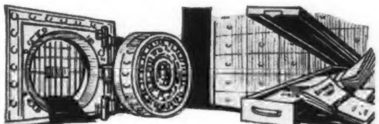
As we contemplate the tools of our various trades, and the work that we can do, the work that we must do, it is well to remember in adjusting ourselves for greater accomplishments during this present year of 1930 that *—the big griefs of last year came from attempts to get an accumulation of money without service.*

James E. Clark

A New Way to Lend Money

By HOWARD WHIPPLE
Vice-President, Bank of America of California, San Francisco

Form for Recording Intangible Credit Values Devised Which Puts the Making of Unsecured Loans Upon a Scientific Basis Instead of Entirely Dependent on Personal Knowledge of the Loaning Officer. Prevents Misunderstandings with Borrowers.



Stock in Trade

LOCKED in the brain of every loaning officer there is a mass of valuable information which guides him in the extension of credit and the renewal of notes. Here is described a system by which the brains of these loaning officers can be unlocked and their information made a part of the bank's stock in trade, available for use by the bank and in the interest of the best in management.

THE gentle art of money lending reaches its finest flower in the extension of unsecured credit. In that form it requires far more of its indispensable requisite, good judgment, far more native intuition and knowledge of such intangible factors as the debtor's business morality than its counterpart, secured credit.

While it would be inaccurate to say that consideration of these factors may be wholly disregarded in the latter form, certainly the fact that an obligation is satisfactorily secured reduces their consideration to a minimum. But when that reduction occurs, money lending of that sort loses all resemblance to an art and becomes little else than a mechanical process.

Monotony Gives Way

INTO this groove, the banker who loans largely on market collateral is prone to fall. As is said in fruit shipping sections, a commission man is one who possesses a straw hat and knowledge of the location of the telegraph office. So in the banking institution where lending on market collateral is the rule, a lending officer is one who knows where to find security quotations and how to figure the percentage of market value his finance committee will permit him to loan. His action in doing so often requires about as much judgment as is demanded of the bank's janitor at window cleaning time. It is pawnbroking in nearly everything but the element of haggle.

This is not the case with the unsecured loan. Very different technique must be followed and the monotony of slavishly following rigid rules gives way to the variety of exercising judgment. This is particularly the case in non-urban sections where market collateral is not so plentiful and where credit-extensions—being largely based on the human equation because of the absence of collateral—vary in atmosphere as only individuals can vary.

Because of this variance it is difficult to devise formulæ for guidance in the moral field of unsecured credit; the banker must know his man. True it is the ratios of the Robert Morris Associates are formulæ and are useful in extending unsecured credit. But they relate to physical assets and not to moral qualifications, and so may be disregarded here.

Unexpected Aberrations

TO know his man, the banker must study the individual borrower's history. From this he is usually able to map out his future procedure with the debtor with some degree of satisfaction. Of course, even then there will occasionally occur strange and unexpected aberrations from the normal on the part of an erstwhile thoroughly dependable borrower. But as a rule, the great majority of debtors pursue a very even course in their attitude toward their creditors and obligations. When they do stray far from the beaten path, it is usually because of some extraordinary factor over which they have little or no control. Normally, their credit behavior is a matter of temperament. So it is the task of the discerning banker to recognize and analyse the temperaments of his unsecured debtors, to separate the fickle from the constant, the faithless from the dependable, and the unworthy from the worthy.

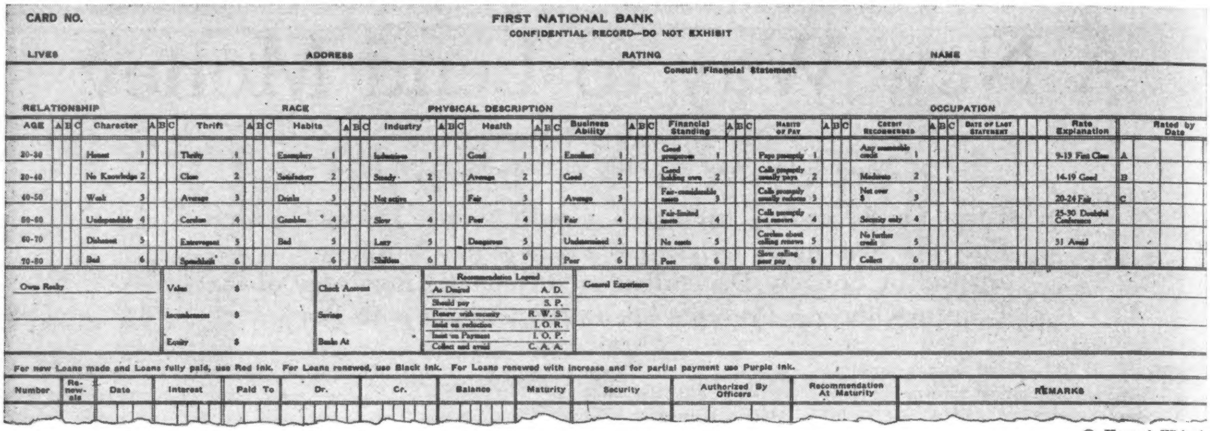
But that is not all. To extend unsecured credit safely, a lending officer must have the ability to analyze many factors. He must know the economic situation of the activity in which the borrower is engaged and its relation to the economic situation as a whole. Particularly must be know the capacity and willingness of the borrower to pay.

In analyzing capacity and willingness to pay, the banker seeks knowledge of the physical assets and moral qualifications of the borrower. Physical assets are tangible and real; they are matters of fact and are reflected with some degree of accuracy in the borrower's financial statement. Moral qualifications, on the other hand, are intangible. Though very real, they are more matters of opinion than matters of verifiable fact. They have no material substance; they exist only in the minds of people and, accordingly, their form has infinite variety.

Matters of Faith

AS far as the bank is concerned, the moral qualifications of the borrowers depend for their being on the lending officer's mental appraisement of their existence and quality. Furthermore, they exist in his mind more as matters of faith than as matters of knowledge. In the absence of evidence to the contrary, Banker Jones believes Borrower Smith to be honest and has faith in him in consequence. Other people, on the other hand, may rate him as totally devoid of the quality and unworthy of their confidence.

As a rule, Banker Jones makes no permanent record of his appraisal. He stores it in his mind. If his judgment in making the loan is questioned, he recites orally and from memory his reasons for extending the credit and his estimate of the borrower's moral quali-



CARD NO. FIRST NATIONAL BANK
CONFIDENTIAL RECORD—DO NOT EXHIBIT

LIVES ADDRESS RATING NAME

Consult Financial Statement

RELATIONSHIP RACE PHYSICAL DESCRIPTION OCCUPATION

AGE	Character	Thrift	Habits	Industry	Health	Business Ability	Financial Standing	Habits of Pay	Credit Recommended	Date of Last Statement	Rate Explanation	Rated by Date
20-30	Honest 1	Thrifty 1	Exemplary 1	Industrious 1	Good 1	Excellent 1	Good progressive 1	Pays promptly 1	Any reasonable credit 1		9-13 First Class	A
30-40	No Knowledge 2	Close 2	Satisfactory 2	Steady 2	Average 2	Good 2	Good holding own 2	Calls promptly usually pays 2	Moderate 2		14-19 Good	B
40-50	Weak 3	Average 3	Drinks 3	Not active 3	Fair 3	Average 3	Fair-considerable assets 3	Calls promptly usually reduces 3	Not over $ 3		20-24 Fair	C
50-60	Undependable 4	Careless 4	Gambles 4	Slow 4	Poor 4	Fair 4	Fair-limited assets 4	Calls promptly but renews 4	Security only 4		25-30 Doubtful Conference	
60-70	Dishonest 5	Extravagant 5	Bad 5	Lazy 5	Dangerous 5	Undetermined 5	No assets 5	Careless about calling renews 5	No further credit 5		31 Avoid	
70-80	Bad 6	Spendthrift 6	6	Shiftless 6	6	Poor 6	Poor 6	Slow calling poor pay 6	Collect 6			

Owns Realty

Value $
Incumbrances $
Equity $

Check Account
Savings
Banks At

Recommendation Legend	
As Desired	A. D.
Should pay	S. P.
Renew with security	R. W. S.
Insist on reduction	I. O. R.
Insist on Payment	I. O. P.
Collect and avoid	C. A. A.

General Experience

For new Loans made and Loans fully paid, use Red Ink. For Loans renewed, use Black Ink. For Loans renewed with increase and for partial payment use Purple Ink.

Number	Renewals	Date	Interest	Paid To	Dr.	Cr.	Balance	Maturity	Security	Authorized By Officers	Recommendation At Maturity	REMARKS

fications. That recital is certain to vary each time it is given; not only is memory tricky, but judgments change with time and experience.

Had the appraisal been written down at the time the credit was extended, when all was fresh in the mind of the officer, the record would show for itself. Furthermore, it would be more available for it would not be locked up in the head of the lending officer. That should never occur, for the information is not his property; it belongs to the bank. It is part of its working capital, its stock in trade. But locked up in the officer's head it is subject to loss through his forgetfulness, absence, severance of connection or death.

Translated Into Loss

WHEN this loss occurs, painful situations are bound to arise. Bankers, who are obliged to explain another lending officer's credit extensions to an examiner or to directors or who are confronted with the task of renewing or collecting a loan they themselves did not make, know the difficulties of handling such matter when the information they urgently need is not available. Their failure to possess the requisite knowledge is only too often translated into definite loss for the bank. Sometimes it means a charged off note. More often it means a dissatisfied customer; he may have had a definite understanding with the first officer. Because his successor could find no record of that understanding, the borrower feels that the agreement he may have entered into with the first banker has been violated or that a promise made to him has not been kept. When he feels that way, his confidence in the integrity of a banker's word is rudely jarred; naturally enough, he becomes resentful. On the other hand, not a few borrowers will attempt to establish to a succeeding officer the existence of an alleged agreement with another officer which the latter had never sanctioned or made.

All such uncertainty could have been avoided in large degree had the banker originating the credit made a written record of the whole transaction in the first instance. Then there would be no misunderstanding between borrower and succeeding lending officers; losses of good will and profits would be largely minimized; basic and vital information would be clearly and accurately conveyed to examiners and directors; there would be none of the floundering, the embarrassment caused by lack of memory, by the inability to recite facts and clearly stated, well grounded opinions.

Appeals to Vanity

THOSE with brilliant memories may be able to recite with little or no difficulty the circumstances of their own credit activities, but, unfortunately at times for the bank they may represent, they cannot read and articulate what may have been in the mind of an absent fellow officer who made the loan originally. As a matter of fact, it is not within the power of most bankers to remember accurately all the varied and intricate details of many credit transactions. Too many bits of knowledge come to the banker in the course of a day to permit his properly cataloging and arranging all of them for future use. Nevertheless, records must be kept or important information is certain to be lost.

A great number of bankers do keep such records. As soon as an important credit matter is agreed upon, they set forth in writing all the facts and circumstances concerning it. Those who do, know how invaluable such records are.

But probably more bankers do not keep such records than do. There are several reasons for this. Inertia is one; selfishness is another. This latter is many times an insuperable obstacle to the establishment and maintenance of proper credit records. Many bankers jealously guard and retain to themselves their knowledge of the intangible factors in their customers' credit situation. If they alone have the knowledge with which to extend credit, theirs is the position of power with the bank's borrowers. It is usually a position of popularity as well. But in any event, just as the note pouch is the heart of a bank, so the man who makes the decisions as to what shall go into that pouch is a man of first importance in that institution. Those who sense that importance like it, for it appeals to their vanity. At the same time they often use it as a means of maintaining the permanence of their position, for the bank leans heavily upon them; should they leave, with them would go a very valuable asset, the bank's knowledge of customer credits.

For Country Use

THIS selfishness is a very unlovely thing. It is immoral as well, for it robs depositors of a protection they are rightfully entitled to. If all knowledge of the note pouch is locked up in the head of one man, their deposits, which they deliver to the bank as a form of trust, are not as safe as they should be. Should anything happen to him, the task of collecting loans for the purpose of obtaining funds with which to pay off deposits is certain to be a difficult one. Yet how many of us know of banks whose large line of deposits are based on their depositors' confidence in the capability and integrity of a man who selfishly insists on retaining to himself the knowledge of its credit extensions which, to a large degree, is vital to the proper return of those deposits to their owners. Unfortunately of such there are not a few.

But there are far more of another class, those who are not actuated by inertia or selfishness, but who fail to establish written records of intangible credit values because they have not been able to find a proper medium for their establishment. They do not have time to dictate to a secretary the multitudinous

details of the credit extensions they are called upon to make in the course of a day's business. The details do not seem to be important enough to warrant this burdensome effort. Nevertheless, these unimportant details are often of vital consequence to the person who succeeds the original loan officer in handling the credit. His task is much more difficult when he is obliged to work in the dark.

To bring this information out of the dusky fastnesses of a lending officer's brain, to analyze it, to standardize it, to gather it together in one place and to perpetuate a record of it, the accompanying form for recording intangible credit values has been devised. Not for one moment is it assumed that it is a perfect system or that it will fit all cases. It is primarily adapted for country use where collateral is rarely existent, where, in its absence, credit extensions are based largely on character and, sorry to relate, far too often on equities in land.

Locating John Smith

IT is divided into four parts: the locator, the analyzer of credit intangibles, the record of experience and the record of liability. Each part requires some explanation.

In cities, the various John Smiths whose names appear in the lists of a bank's customers may be easily located by their street and house numbers. This is not possible in the country. They must be distinguished by other means. One method is to give the location of the borrower's farm, such as five miles south and three west. This information is desirable for the purpose of obtaining knowledge of his whereabouts from his neighbors in case he moves away. Farm population, particularly in the West, is not always stable, it should be remembered.

Another means of identifying and locating Borrower Smith, who may rarely visit the bank which carries his loan, is by his relationships. John Smith, farmer, may be the son of Big Smith, cattle man. This relationship not only identifies him, but also may have a decided bearing on his credit standing in the community.

John Smith's racial descent also identifies him to some degree and sometimes has something to do with his debt-paying capacity and willingness.

Capacity to Pay

HIS physical description and occupation identify and distinguish him from others of the same name. Many American farming communities are so cosmopolitan that a single bank may have among its customers a dozen or more John Smiths who speak as many tongues as were heard at the Tower of Babel and who may be distinguished from one another only by such unusual marks as the possession of a squeaky voice or a pair of squint eyes.

The analyzer serves a more important use than the locator. It is this part of the record which quickly and easily unlocks the lending officer's brain and records his analysis of those moral and intangible qualifications of a debtor which affect his capacity and willingness to pay. If there are several loaning officers, the use of the analyzer standardizes the judgment of each. Instead of being rated as careful by one, saving by another and prudent by a third, Borrower Smith would be rated as thrifty, close and so forth, the standard descriptions found on the card.

First in the analysis comes the factor of Age. This is important only in the last few brackets, for those are the years in which a borrower's earning capacity begins to wane. It is not important in the case of debtors who have substantial wealth, but it is important in the case of borrowers whose earnings are dependent on daily effort and the possession of physical vigor and undimmed mental faculties. For example, if a farmer should reach the age of sixty-five and find himself in burdensome debt, both for yearly operations and on mortgage as well, it is very doubtful whether the average man in such circumstances, would be able to extinguish his indebtedness during his lifetime. In that instance, it behooves the banker to watch carefully the trend of his indebtedness, or loss will probably ensue.

Character and Thrift

UNDER the heading of Character, there seemingly can be but few gradations: a man is either good or bad, honest or dishonest. Yet bankers know from experience that there are various grades of honesty in loan matters; some men will pay their debts regardless of what happens to their personal fortunes after that, and plenty of others are honest only as a matter of policy. The latter may be willing to pay if they can conveniently, but if that is impossible, they callously repudiate their obligations.

Since honesty in the eyes of the banker is more a matter of opinion than a matter of thoroughly dependable fact, it often occurs that a lending officer will change his opinion of a borrower's honor in credit matters. He may have rated John Smith as honest at one time and shortly after have found that the contrary was true. Or he may hold the formation of his judgment in abeyance and merely record that fact under the checking "No Knowledge."

Under the heading of Thrift there is an important difference between the first two characterizations. In this case, the word "thrifty" implies something more than the word "close." A man is close if he is exceedingly saving and prudent in spending money. He may be equally saving under the heading of "thrifty," but that word implies the possession of managerial capacity. In other words, the close man will keep intact that which he has; the thrifty man will keep what he has and increase it.

A Precarious Venture

THE possession of good habits is an intangible but real asset in a borrower. On the other hand, bankers are obliged to deny credit to those whose personal habits of any kind interfere with their ability to discharge indebtedness.

The degree in which a borrower is industrious is another intangible credit factor. Patently, a lazy man will not ordinarily be as good a debt payer as one who works hard and long. An inactive man has no debt paying capacity at all, unless he receives an income from some outside source or from invested capital.

In similar manner, credit extended to a borrower in poor health is a precarious venture unless the indebtedness is adequately secured.

Business ability, while extremely important, is difficult to judge with any degree of exactness. It is a talent which is often inborn; under equal physical conditions, some men endowed with the divine spark of good managerial ability succeed while others without it fail. On the other hand, many men carelessly rated as having good business ability have merely been lucky.

Financial standing is a nebulously defined characterization. Ordinarily its use is associated with the possession of ample means, yet that is not always the case. Some men with small means are in excellent financial standing. In such cases, to say that they are in good financial standing means that they employ their talents and physical resources to the best possible advantage. And conversely, many men of considerable means are said to be without financial standing. This may be due to a bad record of debt paying, mismanagement or a combination of bad personal habits, laziness or dishonesty.

Eliminates the Laggards

HABITS of pay is a most important characterization. Some men pay promptly. Other men wish to constantly renew their obligations. Others have to be crowded into paying. It is difficult to obtain any comfort or much profit from the borrowing business of the lat-

(Continued on page 707)

Where Savings Deposits Went

By WILLIAM G. SUTCLIFFE
Professor of Economics, Boston University

Effect of Various Forces on the Volume of Savings Deposits Analyzed. Investment Trusts, Building and Loan Associations and Insurance All Considered Competitors of Savings Banker. Methods for Improving Savings Business Believed Available.

CONSIDERING the widespread prosperity throughout the country during 1928 it seems almost as though the impossible was accomplished when the total savings deposits for the year ended June 30, 1929, disclosed a drop of $195,000,000 from the record volume of twelve months previous.

After years of steady growth in deposits the report of the Savings Bank Division of the American Bankers Association describing the new trend attracted general attention. Yet the loss is hardly perceptible, being only approximately $2 per capita.

Upon analysis the figures show that the decline has been sectional, whereas in some sections, particularly the east, the volume has actually increased. In every case, however, of increase it has been at a relatively slower rate than for the preceding year. In total deposits it is the first time since 1909 that the curve has actually turned down. Everywhere the question is being asked: Why this loss?

Held Out as Bait

TO answer this pertinent question it is necessary to follow for the past few years the trend of savings in the various savings institutions. There are those who attribute this loss to the development of installment selling. It is true that such a practice has impaired the surplus income of a great many people, but Professor Copeland in "Recent Economic Changes" states that relatively installment selling is not gaining ground but has increased in about the same proportion as retail sales—namely; 15 per cent.

Other people explain this decline in savings to the orgy of stock speculation. That the large profits through the appreciation of stocks has been held out as a bait to lure the unsuspecting saver into the stock market is no doubt true. But the costly lessons learned in October 1929, it is to be hoped, will not soon be forgotten.

Some argue that the investment trust has sapped the surplus funds of the conservative minded savers, those who have scorned direct speculation or investment but have taken the indirect route. All the above explains to a certain extent why savings deposits have decreased but to those should also be added the competition of the building and loan association and the insurance companies.

One of Many

WHILE much of the cause for the decline in the total savings deposits of the country has been attributed to stock market activity it is averred here that trading in securities has been only one of a number of factors in the savings situation and that other factors are perhaps more important because they are continuing and without relation to conditions in the security markets. Nevertheless the outlook for savings banks is thought to be bright.

Leads to a Rapid Descent

ALL these forces competing for the surplus income—even though it has been larger—has caused a shrinkage in the funds placed on time deposit. The extent of the public participation in each of these fields might point to some solution of the problem of how to increase the savings deposits.

It is only too obvious from the holocaust of the immediate market decline that in the last year many of the dollars saved have gone to the speculative field. The savers were not interested either in safety of principal or adequacy of income but rather appreciation of principal. With the artificial levels of stocks it was no wonder that people were lured to withdraw their savings and put them into this ever-inflating balloon. It is to be hoped that the present bear market will convince the small saver, who needs a liquid and safe fund, that inflation leads to a rapid descent with no safety, and loss of principal as the result.

At this time it is difficult to see just what effect the recent decline in stock prices will have on the direct participation by small savers. The savings banks seem to be having diverse experiences; some report a tremendous increase in deposits whereas others report that the withdrawal windows are crowded.

Shuns Security Ownership

PROBABLY no institution offers such actual and potential competition for the savings deposits as the investment trust. The banks may gain temporarily since there is a tendency for the public to shun security ownership at this time. It is not to be expected, however, that a well managed investment trust with its geographical and industrial diversification in its holdings will lose its appeal to the average investor. Sound management can always yield good returns in this field and likewise give comparative safety.

It is true that the growth of this institution has been somewhat unhealthy, since over two billion dollars have been invested in the securities of these trusts in the year 1929. In view of this growth is it any wonder that bank deposits have actually shrunk?

With their latitude in the choice of securities for investment—except the fixed trust—the investment trust can give a higher yield, together with commensurate safety, than the savings bank. People have long since given up the idea of saving merely for the use of a place of safe keeping. Income is a factor in the placing of funds.

One of the disadvantages of the investment trust from the point of view of the small saver has been the relative high value of the unit price of participation. This is changing, as evidenced by the Dollar Share Corporation Trust just organized by the Buffalo banks. The unit value is today within the reach of most savers. It is true that another disadvantage of the trust for the small saver

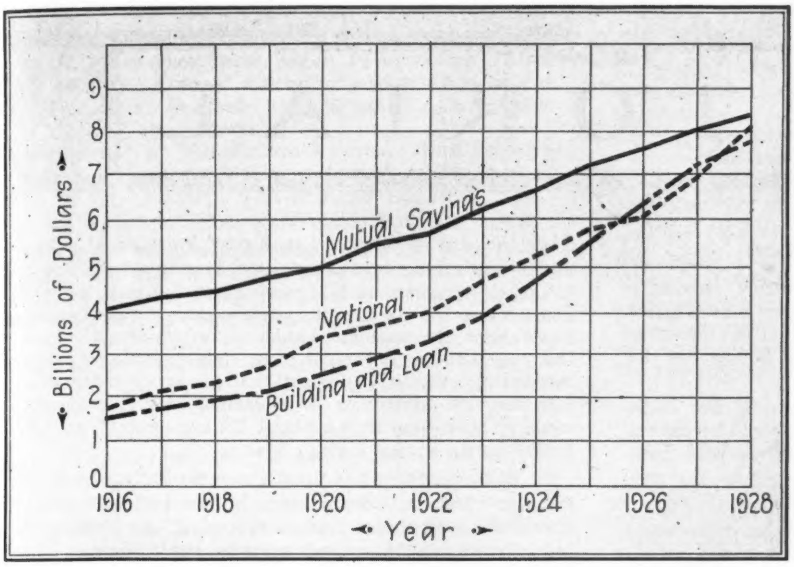


Chart No. 1—Growth of mutual savings and national savings deposits, and assets of building and loan associations

is that if he requires some liquid funds it requires closing out a share or more and thus he may receive more than is perhaps necessary, whereas in a savings bank he merely draws that which is necessary and the remainder continues to draw interest.

The Greatest Competitor

IT would appear, therefore, that the only hope of the savings deposit institutions in competing with the investment trust is to grant a higher return on deposits. To do this will require, in many states, a modification of the statutes limiting investments for savings banks.

It would appear that the savings bankers believe that their greatest competitor is the building and loan association. In a reply to such a question sent out by the Savings Bank Division over 50 per cent stated that this type of organization was their greatest competitor. That the building and loan associations have been increasing more rapidly than the mutual savings banks is quite apparent from chart number 1. The chart also shows the tremendous increase of time deposits in national banks.

In 1920 the mutual savings banks had twice as many depositors and deposits as the membership and assets of cooperative banks, but by 1929 the building and loan association had approached the mutual in both numbers and assets.

The old type of savings bank man counters and states that this growth has been dependent upon the building boom up to 1929. True, but the funds had to be raised from members; and why did they contribute? Because the dividend rate, as found by half the banks answering the questionnaire referred to above, was from 6 to 8 per cent. The higher rate is attractive especially since safety is coupled with the use of the funds. In some states, particularly in Ohio, the building and loan association actually does a savings bank business.

Over-Insurance a Burden

INSURANCE has been another field with a marked growth in these years of prosperity. The number of policy holders has increased two and a half times since 1916 and the amount of insurance in force has increased during that time from 24 billions to about 100 billions of dollars.

The growth is perhaps best indicated by chart number 2, and from the slope of the curves it is seen that the insurance annual growth has been roughly 15 per cent, whereas the savings deposits only 10 per cent.

With the development of the annuity plan and endowment insurance it is to be expected that large sums will, and should, flow to this course, since it combines both protection and savings. However, for the small saver too much insurance becomes a burden. He must have liquid funds and the loan value of a policy is often insufficient to meet his needs.

During recent weeks loans on insurance policies have, it has been stated, reached record heights. These loans in all probability were obtained to maintain margin requirements. With the possibility for such speculative increase lessened, it is to be expected that life insurance sales will not show such a marked gain this coming year. It would not be surprising to some to see considerable insurance lapse.

Insurance, nevertheless, should always be a method of saving, and in Massachusetts some of the savings banks realize this and so write a combination insurance and savings policy. This may be one way to attract some of the business that is going to surplus insurance.

With this intense competition for the surplus funds, is there any possibility for the savings deposit institutions to retrieve some of their losses?

The case certainly is not a hopeless one; there are many avenues open to sav-

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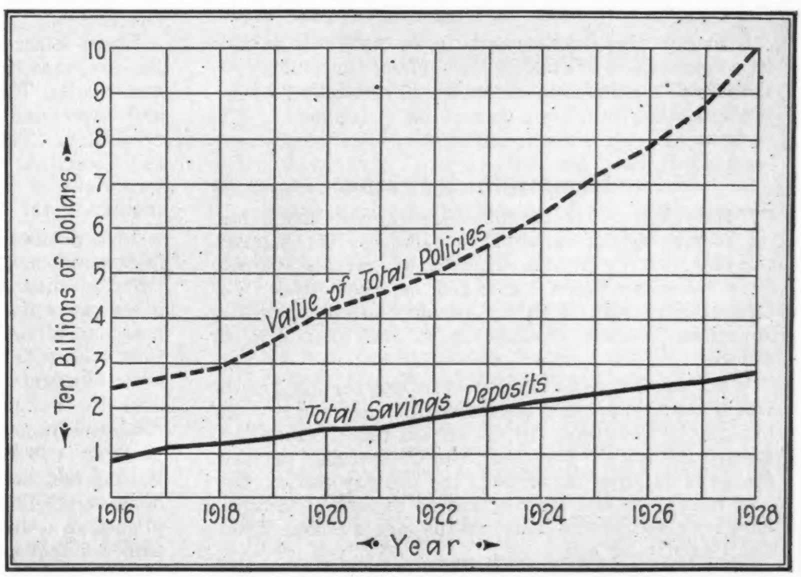


Chart No. 2—Growth of total savings deposits (in mutual and stock savings banks, state and national banks, trust companies and private banks) and total value of life insurance policies in force

EDITORIAL

Pennsylvania's Precedent

AN opinion rendered by the Attorney General's Department of Pennsylvania holds that Christmas savings clubs are operated in violation of state banking laws, unless specific authority is held by the operators for conducting the clubs.

Impelled by this opinion authorities of the bank department of the state have announced their intention of proceeding against all corporations and individuals conducting Christmas savings clubs for employes, without authority to do a banking business.

Doubtless this action will work some hardship upon a number of commendable Christmas savings enterprises in Pennsylvania. Nevertheless the decision of the state banking authorities should set a precedent for other states whose statutes are subject to a similar construction.

The Pennsylvania authorities found that for several years there would come to light about Christmas time numbers of cases where funds deposited in these clubs had been embezzled by the person having custody of them. Prosecutions were successful in some instances but what the department most needed was authority to so supervise as to prevent the loss and mismanagment of these savings funds. Embezzlement of thrift funds was not helpful to the thrift idea.

But there is a broader principle involved in the decision of the Pennsylvania authorities. Christmas savings clubs of this character are only one of a growing number of agencies which skirt the boundaries of banking without accepting the legal responsibility that the operation of a bank demands. These agencies compete with banks on altogether unequal terms.

It may be that developments in Pennsylvania herald an awakening in officialdom throughout the country to the steadily increasing necessity of restricting banking to banks.

The Comptroller's Prospect

THE Comptroller of the Currency has made his formal recommendation to Congress for legislation authorizing branch banking by national banks. This recommendation has been expected since the Comptroller's address to the Annual Convention of the American Bankers Association at San Francisco in October.

What was not expected, however, was the manner in which the Comptroller presented his case for branch banking to Congress. In his annual report submitted toward the end of December, the Comptroller surveys the bank failures throughout the country during the past nine years and reports that no important failures have occurred among banks in the larger cities. Then the Comptroller said:

"It is cause for immediate concern that the operating conditions faced by the country banks show no prospect of improvement under the present system. There are many country banks now operated at a loss and many others operating upon earnings insufficient to justify their capital investment. There is not available to me the earning statements of state banks, but taking the national banks as an illustration and the year 1927 as a typical year (later earning figures not being compiled) 966 national banks operated at a loss and an additional 2000 earned less than 5 per cent. These constituted about 38 per cent of all national banks in the United States."

It is to be regretted that the compilation of 1928 earnings were not available. In the last two years there has been a tremendous spread of the science of bank management among country institutions. The adoption of scientific principles of administration has introduced account analysis, service charges, per item charges, float charges and numerous other improvements in operating practices.

Asking for Plenary Power

THE Federal Trade Commission is asking Congress for legislation delegating to it full auxiliary power of investigation. This means that the Commission asks for the same investigatory power as that possessed by Congress to be allied to the field of jurisdiction exercised by the Commission.

On its face the proposal seems daring for Federal Trade Commission investigations conducted with the authority over witnesses, and the production of evidence equal to that of a Congressional committee might not only upset business but might turn it upside down.

There is a certain irony in the suggestion. Investigations made by the Commission come under two general heads. There are those conducted under statutes and those undertaken in response to Congressional resolution. Those in the latter class are many and the Commission must make inquiry as directed, its own views of the wisdom, expediency or value of the inquiry to the contrary notwithstanding.

Though always there is a very considerable outlay of time, money and energy in these investigations, the results frequently are of doubtful importance, for Congress can order an investigation and thus give the impression of a vast interest in a subject. Then the Commission, with limited powers, finds itself occupied sometimes for several years with a proceeding which drags to its end almost unobserved.

Washington observers think that the Commission probably will not get the auxiliary power requested, but the fact that the request has been made may bring home to Congress a realization that little is accomplished in ordinary investigations where the Commission is handicapped at the start by the limitations of its inquisitorial powers.

Consideration of the fact might even lead to fewer investigations.

Gold Goes Out

GOLD has once more begun to move out of the country. France, which for a year or more has been syphoning the metal from England, is now drawing on the United States.

Settlement of the Franco-American war debt removes the necessity for large French balances being held in this country. The changed American money market no longer offers to foreign balances the profits it did a few months ago. Hence England is no longer feeling the gold suction as strongly as it did. The United States is taking the place of Great Britain at the other end of the French syphon.

There is a great difference, however, in the way England watched gold going out and the manner in which this country can, with equanimity, see its stocks depleted.

British distaste over the French policy of taking gold from across the channel reached such heights that the feeling of the Bank of England toward the Bank of France became common talk in Europe. Meanwhile the uneasiness in England manifested itself in some curious ways, notably the resurgence of opposition to the gold standard which was so strong in that country a decade ago. There was even agitation, and still is for that matter, by certain British economists for a currency based on "wealth products." Their theory is that gold is only necessary for international payments and should not control the internal credit position.

It is well within the bounds of probability that the United States will lose much more gold than did Great Britain. But the Federal Reserve System can do what the Bank of England could not. The Federal Reserve System can offset the effects of an enormous amount of gold exports through its open market operations. That is, the Federal Reserve Banks are in a position to buy securities in the open market in proportions equivalent to gold shipments, with the result that the tightening influence of these exports is avoided.

This process of offsetting gold movements is one of the most thoroughly worked out principles of Federal reserve procedure. It has been tested out before. Later on, if gold shipments attain spectacular proportions, it may be well to remember the existence of effective Federal reserve machinery—an inestimably more valuable national asset than new theories of currency reorganization.

A Local Problem

THE United States is such a large country that a real national problem is a rarity. Important questions are continually arising which close at hand have all the aspects of country-wide application. Yet examination may sometimes disclose, that for as many sections of the country as are concerned with a particular situation, there are as many to whom the matter is of little or no interest.

This seems to be the situation with respect to banks and building and loan associations. These associations compete with banks without bearing the burden of the restrictions that are imposed upon banking itself.

The relationship between the banks and the building and loan associations appears to be one of the important problems awaiting solution. Nevertheless it partakes of the nature of a local or sectional problem rather than a national one.

Specific inquiry shows that in some states there is a strong demand for equalization of the competitive basis upon which banks and building and loan associations operate. In other states the activities of building and loan associations apparently are regarded with complete equanimity.

In certain localities, notably Newark, N. J., New Orleans, La., and in California the banks have been studying the problem of building loan associations and the relationship of these organizations to banking. Such a method might be equally well adapted to other sections of the country where building and loan associations are by their methods said to be overstepping their normal functions and in effect are conducting banking business without subjecting themselves to the regulations imposed upon banks.

When Does a New Year Begin?

CUSTOM demands that the coming of a new calendar year should be considered of great business significance. Social emphasis creates the impression that there is a definite commercial cleavage between December 31 and January 1, in consequence of which it is sometimes felt that things are lagging when January and February show no signs of striking activity in trade and industry.

Now, from the business standpoint, January 1 as the beginning of the New Year is in many cases a misnomer. Not all concerns of major importance close their books for the year on Dec. 31. Some use one month, others another and January is only part of a year rather than the start of one. Strictly speaking, the business new year in the north temperate zone begins in the spring when the seasonal revival in trade gives the year its economic tempo.

It is the outlook for the year, not the situation at the New Year that is important. Elsewhere in the JOURNAL there are some interesting views of leading bankers on the conditions to be expected. They stress 1930 as a whole, not the New Year in their encouraging statements.

The Consolidation Plan

AFTER years of effort the Interstate Commerce Commission has evolved a plan for the consolidation of the railroads of the country into major systems. Now that Congress has the plan there may eventually be new railroad legislation.

Announcement of the details of the Commission's plan brought down a shower of verbal brickbats. Comment upon the proposed makeup of the consolidated lines seems to have been destructive rather than constructive to an extent even more than usual in the consideration which is given to governmental reports.

What has been overlooked is that a specific plan has at last been drafted. At the moment that fact is more important than the suggested groupings of the carriers. Few other than practical railroad men understand the questions at issue in rail consolidations. No one expects Congress to accept the plan exactly as drawn by the Commission.

But many people would like to see the question of railroad consolidations settled one way or another. The question is too vitally linked with security values to be allowed to remain in a state of uncertainty indefinitely. At least the Commission's plan represents progress. It is a beginning.

Coffee Tips the Scales

By EMMETT HARRIS

Collapse of Brazil's Coffee Valorization Scheme Aggravates Difficult Financial Situation Faced by That Country Which Has Long Been Dependent Upon Foreign Loans. Troubles Arise Out of Budget Set Up as Well as Attempt to Control Prices.

TO find enough foreign exchange with which to meet service charges on foreign loans and other foreign obligations, Brazil must borrow abroad at least $50,000,000 in the next few months. Unless this is accomplished, there appears to be only two alternatives: repudiation of debts, either absolute or conditional, or a drain of gold that will upset the position of the Brazilian milreis and work general economic havoc.

This is no new position in which the great coffee nation finds itself. With foreign payments of principal and interest on foreign obligations totaling some $150,000,000 every year, Brazil has had little on the credit side of the international ledger to draw upon.

Since 1924, when the favorable merchandise balance was $117,000,000, there has been a steady decline in annual credits created abroad from this source, due principally to mounting imports. In 1925 the balance was $78,000,000; in 1926, $70,000,000; in 1927, $44,000,000, and in 1928, $33,000,000. For the first seven months of 1929, largely because of a relatively greater drop in exports than in imports from last year's figures, the export excess is only $11,600,000.

Coffee Prices Broke

EARLY in September of 1929, however, coffee prices broke from 16 cents to 11¾ cents per pound in November or about 26 per cent. The effect of this drop in the price of a commodity which represents 70 per cent of Brazil's total exports, gives pause to those who have come to the "defense" in the past of the world's greatest artificial monopoly, the coffee valorization scheme.

Even without the present coffee crisis, Brazil would have had to float loans abroad this year, as she has done every other year for the past decade, merely to balance her position abroad and prevent the milreis from taking a disastrous nose-dive. The Brazilian ledger, as a matter of fact, shows a deficit each year of about $100,000,000, representing the excess of all payments abroad, both visible and invisible, over receipts from abroad. The proceeds from new foreign loans has averaged more than this, however, and as a result Brazil's gold holdings increased $92,500,000 in three years, reaching $148,500,000 in 1928.

BRAZIL'S total bonded indebtedness at the end of 1928 was approximately $1,034,000,000. In addition to this investments by British, French, Mexican, American and other capitalists in railroads, industries, plantations, electric light and telephone systems, not covered by the bonds issued by the Federal, state and municipal governments, totaled $1,212,000,000. Thus external obligations alone now total $2,300,000,000 as compared with an internal debt of only $288,000,000 or a total of $70 per capita. The service on the public debt absorbed no less than 28 per cent of the total revenues in 1927.

By suspending the government's power to issue Treasury notes for ten years and by transferring the function of note issuance to the Bank of Brazil, a currency law of 1923 did much to stabilize the milreis. There was still some fluctuation, however, until a new law in 1926 provided for the stabilization of the milreis at about 12 cents, fixing the weight of the gold coin at 200 milligrams of gold, .9 fine, and establishing a stabilization bureau, which was to insure convertibility of its notes into gold at the fixed rate of exchange pending a definite return to the gold standard.

In the following year two decrees authorized the Bank of Brazil to buy and sell foreign exchange in order to maintain the milreis at the fixed rate, and provided for the convertibility of both the Treasury notes outstanding and the notes of the Bank of Brazil at the fixed rate, pending the return to the Treasury of the £10,000,000 stabilization fund turned over to the *Caixa de Estabilisacao* (stabilization bureau) in 1923. In the meantime the Treasury is to accumulate resources from actual gold reserves set aside according to law, budget surpluses, proceeds of credit operations and banking profits under the contract with the Bank of Brazil. Since these measures were adopted the milreis has remained practically stable at 11.85 cents.

There still remain, as a result of these laws, however, three classes of

(Continued on page 711)

Chain Stores and Banks Get Together

By HAL Y. LEMON

Chairman, Commission on Banking Practices and Clearinghouse Functions, American Bankers Association and vice-president, Commerce Trust Company, Kansas City, Mo.

Average Balance of Eight Hundred Dollars is Minimum Figure Which Permits Banks to About Break Even in Handling Chain Store Accounts. Bankers and Chain Store Executives Discuss Situation at Conference Which Promises Beneficial Results.

THE pressing problem of chain store accounts is on the way to solution. Definite progress has been made in this direction through the efforts of the banks and the chain stores, working together, to arrive at a common understanding.

This has been done by means of pioneering in banking procedure—a joint discussion between representatives of the banks and the chain stores of the difficulties which have arisen in their relations with each other. Candid interchange of the views of both groups has set a precedent for meeting troublesome questions facing banks and any class of customers.

Keeping Pace

THE rapid spread of chain stores throughout the country in recent years produced the problem of the local chain store account. Keeping pace with the expansion of this form of retail merchandising were the complaints of bankers who felt that local chain stores were asking for banking service without adequately reimbursing the banks.

Bankers contended that local chain stores should either maintain adequate balances or pay a per item charge for services rendered. By the fall of 1929 the situation had produced an unsatisfactory relation between the chain stores and the banks.

At this point the chain stores and the banks arranged to get together and find a way out. The National Chain Store Association in annual convention in October heard an address by Craig B. Hazlewood, then President of the American Bankers Association in which he described the dissatisfaction of the banks with the general run of chain store accounts. In a spirit of broad thinking the chain store association promptly created a committee, as suggested by Mr. Hazlewood, to discuss the matter around the table with a committee from the American Bankers Association.

Candid Discussion

THESE two committees met in Chicago early in December. The discussions were frank and candid. Both committees were actuated by the desire to open the way for an efficient, businesslike relationship between banks and chain store depositors.

Spokesmen for the banks informed the meeting that an exhaustive study of the subject had been made by means of 4000 questionnaires sent to banks located throughout the entire country. From the replies it was evident that, in the main, chain store accounts maintained with banks in the larger cities were satisfactory and profitable to the local banks. This condition was not found to be true of accounts maintained in the smaller points, as these appeared to be generally, although not always, unsatisfactory.

The survey indicated that many chain store corporations carry a much larger balance with one bank than they do in other banks in the same territory located in towns of similar size. For instance, it was found that an account of $1,500 was maintained in one town by a chain store corporation and a $500 account in a neighboring town of similar population. The first-mentioned account was profitable to the local bank whereas in the latter case the account was carried at a loss.

Tentative conclusions drawn from the results of the survey were submitted to the conference as recommendations from the bankers committee as a basis for an equitable arrangement on chain stores accounts.

Should Produce a Profit

THE recommendations were:

"1. It is assumed that no chain store account should be maintained unless it produces a profit for the bank, however small.

"2. We are prepared to show that a minimum average balance of $800 with what might be termed normal activity (that is, the activity of the average chain store account carried by the bank) is required in order that the bank may break approximately even. A balance of at least $1,000 average is required to show a profit under normal activity, as described later.

"3. Checks payable out of town, or even payable on other banks in the same town, create what bankers call 'float,' that is to say, funds which are unavailable to the bank of deposit for income producing purposes. Therefore, if the chain store account should deposit checks, as well as currency, the minimum balance of $800 or $1,000 should be added to by the amount of such 'float!' Thus a store whose 'float' averages $5,000 daily should carry a ledger balance of at least $5,800.

"4. There are other services which cause banks expense, as, for example, the receipt of deposits at night, the handling of currency, the cashing of checks, the transfer of funds, etc., which entail a cost which must be met either by the balance or by actual service charges. Therefore, the chain store balance at all times should be sufficient to cover such cost for service rendered and, in addition, net a fair profit to the bank.

Minimum Costs

"THE figures shown here represent the costs in the very best managed banks, and should not be considered average. They represent the minimum which we believe ought to be used in fairness to the chain stores. These are as follows:"

Checks	3 cents each
Deposits	5 cents each
Currency	50 cents per thousand

"5. Illustrating the basis upon which we have arrived at our minimum balance of $800, we submit the following exhibit, which will indicate maximum activity

(*Continued on page* 709)

A NATIONAL BANK

Condensed Statement of Condition

Bank of Italy

NATIONAL TRUST & SAVINGS ASSOCIATION

December 31, 1929

RESOURCES

First Mortgage Loans on Real Estate	$243,945,840.55	
Other Loans and Discounts	297,671,877.15	$541,617,717.70
United States Bonds and Certificates of Indebtedness	177,894,688.63	
State, County and Municipal Bonds	49,935,009.89	
Other Bonds and Securities	15,859,041.20	
Stock in Federal Reserve Bank	2,850,000.00	
TOTAL U. S. AND OTHER SECURITIES		246,538,739.72
Due from Federal Reserve Bank	$ 25,626,547.95	
Cash and Due from Other Banks	158,240,958.80	
TOTAL CASH AND DUE FROM BANKS		183,867,506.75
Banking Premises, Furniture, Fixtures and Safe Deposit Vaults (292 Banking Offices in California)		31,958,656.19
Other Real Estate Owned		4,100,448.62
Customers' Liability under Letters of Credit and Acceptances		37,506,471.70
Customers' Liability on Bills Purchased and Sold		3,881,415.04
Interest Earned on Bonds and Loans		4,974,555.62
Other Resources		667,861.75
TOTAL RESOURCES		**$1,055,113,373.09**

LIABILITIES

DEPOSITS: Savings	$582,873,629.68	
DEPOSITS: Commercial	311,019,103.19	
		$893,892,732.87
Letters of Credit and Acceptances		37,506,471.70
Bills Sold with our Endorsement		3,881,415.04
Circulation		8,566,080.00
Dividends Unpaid		3,015,514.96
		$946,862,214.57
CAPITAL	$ 50,000,000.00	
SURPLUS AND PROFITS	58,251,158.52	
INVESTED CAPITAL		108,251,158.52
TOTAL LIABILITIES		**$1,055,113,373.09**

All charge-offs, expenses and interest payable to end of year have been deducted in above statement

MORE THAN 1,500,000 DEPOSITORS

CALIFORNIA

Bond Issues for Highway Construction

By GEORGE E. ANDERSON

Tendency of States Toward Gasoline and Automobile Taxes as Basis for Special Issues to Finance the Building of Paved Roads is Changing Public Attitude on This Class of Bonds. Prospects Are for Increased Offerings of These Obligations.

STATE bond issues have always been the occasion for criticism and disquietude. The general public reaction to them goes back to the days when an increase in the state debt indicated an increase in direct state taxes. While the increase in state indebtedness for road building in the past few years has been enormous it requires only a cursory examination of the subject to demonstrate that the increase is based upon sound and satisfactory constructive principles.

They affect ordinary state taxation favorably if at all and the stimulating effect of rapid highway improvement upon the economic life of the state is felt in every line of commercial, industrial and social activity.

Prior to the general use of special automobile and gasoline taxes as the basis for such bond issues they were based upon the general credit and general revenues of the states and while they were economically beneficial they were open to objections applying to increased taxation. They were good bonds but they represented general state indebtedness.

Gas Tax a Stimulus

IN 1913 the State of Maine inaugurated a new policy by voting to issue $500,000 worth of bonds annually for road building to be financed from the tax or license fee on automobiles. The great majority of state issues since that time have been based upon either the automobile registration fee or a tax on gasoline or both. Of the total of $1,391,216,500 the state road bonds authorized up to the close of 1928, $670,374,000 are financed from one or both of these taxes; $14,500,000 are financed from bridge tolls. Of the $706,374,500 remaining to be financed from general state revenues, $300,000,000 represent the special New York bond issue for grade crossing elimination.

In short, the gasoline tax and motor car registration fees have come to be accepted as the most satisfactory basis for highway bond issues—satisfactory alike to borrowers and bondholders, whether issued directly by the states or indirectly through contributions from the state governments to county and other local units. Since these taxes are primarily in the control of the states, local taxes of the same sort being only supplementary to the state tax and limited by reason of the fact that the state has the first call upon this source of revenue, the income of such taxes to the state has been at once the stimulus to and the means whereby the states have come to assume the greater part of the burden of highway construction and improvement.

Under the Aegis

THERE are many reasons for this tendency. Indeed, it is inevitable that things should tend this way. In the first place, modern conditions of life. including the ubiquitous automobile, have made comprehensive systems of roads in each state a necessity without respect to local wishes or local cooperation and both as a matter of welfare for the states at large and as a matter of cooperation with the authorities of other states under the aegis and with the cooperation of the Federal Government. Above all, the state in its vehicle license tax and its gasoline tax has the prime sources of revenue for road construction both with respect to amount and convenience of collection and as regards the principle of making the users of the roads pay the chief part of the cost of their construction and maintenance. As compared with the increase of $443,683,699 on the part of the states, local annual expenditures for roads increased only $91,531,954 between 1921 and 1928.

Having both the means and the stimulus to undertake this great national development, most of the states naturally turned to the best means of accomplishing the purpose, and bond issues were more or less inevitable if the full benefit of the development was to be realized. A discussion of the highway problem of the United States or of the general benefits, social, moral, economic or otherwise, accruing to the nation from highway improvement hardly forms a proper or necessary part of this article, but from a purely financial standpoint it may be well to point out that primarily the financial justification for these huge expenditures rests upon the theory, or fact if you will, that improved highways reduce the cost of transportation in the country.

Enormous Savings

A RECENT calculation of the Bureau of Roads in Washington, for example, cited a traffic count in New England which showed 1520 gross tons daily commodity movement over a certain section of road. On the basis of experiments in other sections of the country on unimproved roads it was calculated that the fuel cost of moving this traffic on unimproved roads with gasoline at twenty-four cents a gallon was $26.44 a mile, assuming that such traffic could be moved over a dirt road at all. The fuel cost of moving the same tonnage over a paved road was $11.70, a difference of $14.74 a day. On the basis of 300 days a year the actual saving in fuel alone for moving this tonnage was $4,422. With the paved highway costing $40,000 a mile the average interest would be $2,000 a year. The annual saving in fuel alone would pay this interest and retire the cost of the road in about eleven years. Of course there are other savings—wear and tear on vehicles, savings in time and labor, and above all the possibility of using improved highways for transportation which is practically impossible much of the year on unimproved highways. The social results of highway improvement, of course, are tremendous.

Assuming such financial benefits, however, the logical conclusion is that the entire roadway system of the country must be improved to the extent and in the way local use and conditions require as rapidly as physical limitations in the way of labor and materials will permit. To fail to do so, as the Federal highway

STATE HIGHWAY BONDS

Accumulated Bond Status From First Issue to End of Fiscal Year, 1928

STATE	FISCAL YEAR ENDS	YEAR FIRST AUTHORIZED	TOTAL BONDS AUTHORIZED, OMITTING REFUND BONDS	TOTAL BONDS ISSUED INCLUDING REFUND BONDS	TOTAL BONDS RETIRED TO END OF FISCAL YEAR	NET BONDS OUTSTANDING INCLUDING REFUND BONDS	SINKING FUND BALANCE ACCRUED END FISCAL YEAR	NET BONDED INDEBTEDNESS (OUTSTANDING LESS SINKING FUND)
ALABAMA	9/30	1922	$ 50,000,000	$ 35,000,000	$ 3,669,000	$ 31,331,000	$ -	$ 31,331,000
ARKANSAS	6/30	1927	52,000,000	26,000,000	-	26,000,000	-	26,000,000
CALIFORNIA	6/30	1909	73,000,000	73,000,000	8,275,000	64,725,000	-	64,725,000
COLORADO	11/30	1921	11,000,000	11,000,000	2,800,000	8,200,000	620,907	7,579,093
CONNECTICUT	6/30	1911	3,000,000	3,000,000	267,720	2,732,280	2,281,114	451,166
DELAWARE	12/31	1917	11,501,000	11,501,000	-	11,501,000	1,697,550	9,803,450
IDAHO	12/31	1905	3,747,500	* 3,911,000	1,067,000	2,844,000	653,058	2,190,942
ILLINOIS	6/30	1918	160,000,000	108,000,000	6,000,000	102,000,000	-	102,000,000
LOUISIANA	12/31	1918	2,700,000	2,700,000	238,000	2,462,000	-	2,462,000
MAINE	6/30	1913	19,823,000	17,943,500	2,025,000	15,918,500	-	15,918,500
MARYLAND	9/30	1908	38,545,000	38,422,000	20,607,200	17,814,800	173,681	17,641,119
MASSACHUSETTS	11/30	1894	16,250,000	13,767,000	10,242,000	3,525,000	2,225,000	1,300,000
MICHIGAN	6/30	1919	50,000,000	* 54,419,000	4,419,000	50,000,000	12,352,690	37,647,310
MISSOURI	12/31	1921	60,000,000	60,000,000	11,000,000	49,000,000	402,102	48,597,898
NEVADA	12/31	1919	1,300,000	1,100,000	600,000	500,000	-	500,000
NEW HAMPSHIRE	6/30	1909	4,000,000	750,000	750,000	-	-	-
NEW JERSEY	6/30	1920	76,000,000	71,000,000	-	71,000,000	9,774,236	61,225,764
NEW MEXICO	6/30	1912	2,500,000	2,500,000	200,000	2,300,000	80,000	2,220,000
NEW YORK * *	6/30	1906	400,000,000	110,000,000	3,000,000	107,000,000	35,112,261	71,887,739
NORTH CAROLINA	6/30	1921	115,000,000	110,999,600	-	110,999,600	2,869,890	108,129,710
OREGON	9/30	1917	39,200,000	* 41,700,000	8,145,750	33,554,250	-	33,554,250
PENNSYLVANIA	12/31	1919	100,000,000	100,000,000	6,779,000	93,221,000	7,901,483	85,319,517
RHODE ISLAND	11/30	1906	6,600,000	6,600,000	37,000	6,563,000	1,201,756	5,361,244
SOUTH DAKOTA	6/30	1919	6,000,000	6,000,000	1,550,000	4,450,000	2,801,047	1,648,953
TENNESSEE	6/30	1927	11,500,000	4,000,000	-	4,000,000	-	4,000,000
UTAH	6/30	1911	7,260,000	7,260,000	-	7,260,000	2,756,000	4,504,000
VERMONT	6/30	1928	8,000,000	5,000,000	-	5,000,000	-	5,000,000
VIRGINIA	6/30	1926	7,500,000	7,428,000	-	7,428,000	-	7,428,000
WASHINGTON	9/30	1909	190,000	125,000	125,000	-	-	-
WEST VIRGINIA	6/30	1921	50,000,000	58,500,000	9,250,000	49,250,000	74,741	49,175,259
WYOMING	9/30	1919	4,600,000	4,600,000	2,700,000	1,900,000	301,502	1,598,498
TOTALS	-	-	1,391,216,500	996,226,100	103,746,670	892,479,430	83,279,018	809,200,412

*Includes refunding bonds. **Includes $300,000,000 for elimination of grade crossings.

officials point out, is merely to shoulder the inescapable expense in the form of greater operating costs for vehicles, a form in which it will be greater than if it is assumed as a road construction cost. If the cost of the necessary improvements can be borne by current revenues, well and good; if not, they should be provided in the form of bond issues, for it is demonstrated by the Federal road authorities that such is the cheaper plan. It is estimated by the Federal authorities that the State of Illinois by its prompt construction of a system of roads between 1921 and 1925 under a $60,000,000 bond issue effected a saving in transportation costs of over $40,000,000 as compared with corresponding savings under a pay-as-you-go policy, this saving being contrasted with a total interest charge on the bonds of about $33,000,000.

These doctrines, however, have not been accepted by all the states or, indeed, accepted in any of the states without controversy which at times has been very bitter. Opposition to bond issues for highway purposes has come mostly from states in the South and West. Up to the close of 1928 only thirty-one of the forty-eight states had authorized such issues, but it is significant that during the current year South Carolina has joined the bond-issuing galaxy with authorization of a $65,000,000 issue and seven other states in the South account for 65 per cent of the $170,000,000 highway bonds issued in the eighteen months ending the first of last July, including $76,155,000 issued in the first six months of this year.

Growth Has Been Impressive

BOND issues by states for highway purposes go back as far as 1894 when Massachusetts inaugurated the policy of issuing bonds for the purpose. In 1905 Idaho adopted the policy; in 1906 Rhode Island and New York followed their lead; in 1908 Maryland made its first issue; in 1909 Washington, New Hampshire and California put out substantial issues, and in the next year or two the policy became more or less general.

Illinois heads the list of state borrowers for purely highway purposes with a total issue of $160,000,000, although New York has issued a total of $400,000,000, of which $300,000,000 is for the elimination of grade crossings. North Carolina follows with a total of $115,000,000 road bonds, followed by Pennsylvania with a total issue of $100,000,000. The volume of issues in other states ranges downward to as low as $190,000 for the State of Washington.

The total of bond issues authorized by states for highway purposes up to the close of 1928 amounted to $1,391,216,500, of which $996,226,100 were actually marketed. Of these issues a total of $103,746,670 had been retired by the end of the year, leaving the net amount of state bonds in the hands of holders at $892,479,430 at the beginning of 1929, against which, however, there were sinking fund accretions amounting to $83,279,018.

By the first of July, 1929, the net amount of state highway indebtedness outstanding had increased to approximately $1,000,000,000 less six months' sinking fund accretions and constituted almost half of the total bonded indebtedness of the states. The growth of the volume of these highway issues has been impressive. In 1904 the total state highway bond outstanding amounted to $1,426,000 less a small sinking fund. In 1914 the total had increased to $93,264,000; by 1924 the amount was $549,685,000, while, as above indicated, the amount outstanding at the beginning of 1929 was $892,510,450 and by the end of the year approximated $1,150,000,000.

Self-Paying Issues

THE amount of county or other local bond issues for highway purposes is unknown. It was estimated in a government review in 1921 that the total of all road bonds outstanding that year

(*Continued on page 714*)

The Yeast in the East

By H. L. RUSSELL
Dean of the College of Agriculture, University of Wisconsin

All Oriental Peoples Seethe in Ferment of Nationalism Which Reaches Boiling Point in the Philippine Islands, Producing a Vital Problem for the United States. Awakening From the Slumber of Many Centuries the East Challenges the Occident.

Mystic Shadows

WARS and rumors of wars in the Far East have turned the spotlight upon the Orient but distance has deepened the mystic shadows that blanket Asia. This article shows that because of the Philippines the cross-currents in the East are reaching our own shores, bringing with them a question for America to decide. In the background of these developments are great business considerations which make them the concern of banking.

TIME brings change, but if the sands of time run long enough, things adjust themselves, and when once adjusted are then harder to change. The civilization of the Orient had thus long ago settled into the complacency of the ages; it had made its adjustments and was satisfied with the result. It was content with what it had developed.

Where reverence for your ancestors is the guiding motive of life, where your forebears are worshipped on a level only little below that of a deity, why should change occur? What was good enough for them, must perforce be good enough now. For forty centuries the farmers of China have tilled the ground in the same way. Scarcely do they know that the mechanical age has disenthralled human brawn from the work of the galley slave.

The Ferment Spreads

BUT the unchanging East could not forever resist the impact of the more aggressive West. Men are now living who were born before Commodore Perry knocked at the door of Japan eighty odd years ago to open the Sunrise Kingdom to the rest of the world. Modern transportation has now annihilated space. When fast liners can span the Pacific from shore to shore within ten days, the East could no longer remain aloof from the rest of the world. The waves of Occidental liberalism more readily lap the shores of Oriental conservatism than was the case when a sea voyage took weeks instead of days.

The World War brought to the surface new ideas. The ferment of the West began to spread. The impact of democracy on the thrones of Europe brought about a new alignment even in the Western world; and this rising tide of nationalistic unrest has now found its way throughout the East. China, the Philippines and British India are in a ferment. Even the Dutch East Indies irks under white control. A leaven is at work. The yeast is in the East.

Once we would have said to ourselves, what do we care? In our isolation we are not concerned with the Orient. But that day has passed. Now the waves of Oriental influence wash American shores on both sides of the Pacific. Whether we want to or not, we have to face the problem. Both in the Philippines and Hawaii, the Oriental question presses for solution. As a world power, America can no longer disregard what happens in the rest of the world. Prophets and publicists tell us the Pacific is the future theater of the world's activities; that here are to be fought out, either by peaceful or warlike means, the clashing ideals of radicalism and conservatism, the necessary adjustments between the Occidental and the Oriental civilizations.

Mixed Motives

THE fundamental point of issue between the Orient and the Occident is the question of race equality. The white race has arrogated to itself a position in which it regards itself superior to the Asiatic mind. Because of this attitude the white man insists on imposing his standards of life on the Oriental, regardless of whether they are welcomed or not.

The Oriental is quite willing to acknowledge this alleged western superiority in many material things, but he has learned to his sorrow that the activities of the Occidental often embrace mixed motives; that while the western world has held out the right hand of altruism, he thinks it has also used the left to exploit him to his disadvantage.

A Chinaman wonders why such strenuous efforts are being made to get him into the kingdom of heaven, alongside of the white man to sing with the angels, when he is not good enough to associate with the same white man here on earth. This bit of Occidental philosophy is hard for him to understand.

Asia Stirs

THREE years ago a Pan-Asian Conference was held at Nagasaki, Japan, attended by delegates from Japan, China, India, Korea, the Philippines and Afghanistan. This Congress was the first gathering of exclusively Asiatic races to demand social equality and denounce the domination of the whites. It was sponsored by the Pan-Asiatic society of Japan, an organization born out of Japanese resentment toward the way in which America had passed the Alien Exclusion Act. In Japan this feeling has made but little headway except in the jingo press which is always trying to inflame the masses against foreign policies.

In China anti-foreign sentiment is the most pronounced of the Far East. The Chinese complain most bitterly that they are shackled by foreign powers in that their autonomy and independence is interfered with. No doubt it is humiliating to an aspiring nation to admit that the collection of customs and their disbursement has to be placed in the hands of an alien representative. But nevertheless a monument erected by the Chinese themselves, stands in a Chinese city to testify to the value of the services of Sir Robert Hart who for many years controlled the office of the maritime customs.

But when money is borrowed for public improvements, it has to be repaid. In private relations this act implies an obligation; but when government is so impotent that it cannot prevent wholesale graft by its own public officials, then it becomes necessary for somebody to step in and see that the taxes or customs which are the security for the loan go to pay just obligations. In China "squeeze" is so universal in official life that the "squeezee" certainly should not object if someone is able to repress the rapacity of the "squeezor."

China Protests

IN Chinese circles one hears much complaint on the subject of extraterritoriality where definite areas in certain cities are under foreign control, as in the International Concession areas in the treaty ports. Again it is no doubt an infringement on the sovereignty of the nation to have foreign courts, foreign police and foreign management exercised over restricted areas occupied by foreign colonies.

But when responsible government is apparently impotent to stop thievery and brigandage, or to safeguard the lives and property of the 110,000 foreign residents now in China, someone has to assume this responsibility. The great powers have indicated their willingness to withdraw these activities as soon as China can definitely assume and execute these primary functions of government.

From past experiences, however, some more tangible evidence than mere assertion is necessary. In the meantime China protests with increasing vehemence that these are indignities which she can no longer stand. They cause her "to lose face" and in China it is more important "to keep face" than anything else.

In Opposite Ways

WHILE China claims the right to a square deal and a fair field; that she is warranted in aspiring to a new nationalism; that self determination is an inalienable right that is as precious to the yellow as to the white race, yet internecine warfare of factional forces so far has prevented even a semblance of effective governmental control that would insure adequate protection of life and property. I asked an intelligent Chinese how long he thought it would be before a stable government could be developed. His prompt answer was:

"Oh! not long; perhaps a couple of hundred years."

What's time in a country that moves at this rate of speed.

China's pro-nationalism often expresses itself in negative form. It is anti-this and anti-that; mainly anti-British, anti-Japanese and anti-mission. The sullen protest of the native Chinese is against the "foreign devils." In essence this is China's way of expressing its efforts toward pro-nationalism. Chinese-like it finds expression in an opposite way from that of the white man whether it is a manual or an intellectual operation. A Chinese carpenter planes a board toward rather than away from the body as we do. He saws on the up, not on the down stroke. He writes from his lines down the page instead of across the paper. In the same way his nationalistic feeling finds expression in antipathy against what he sees.

Teeming Millions

WHEN the flames broke out in the Shanghai riot of May, 1925, it was largely instigated by Chinese students. Later it took aggressive form as a boycott of British commerce. When I was in Hongkong a year later, nearly all commerce between Hongkong, the British port, and Canton had been practically suspended for a year. British boats were tied to the wharves with nothing to do. The British steamer on which I sailed from Hong Kong to Bangkok usually carried every trip from 1000 to 1200 coolies enroute to the tin mines and rubber plantations of the Federated Malay States. On our trip not a single coolie was aboard. The twelve white passengers did not even equal the white officers of the ship, much less the crew. The boycott was the one effective instrument that these teeming millions could use.

In the East Indies the Dutch have so firm a grasp on the situation and the prosperity of the country is so marked that there are no obvious outward manifestations of nationalistic aspirations. The Dutch have been very astute in their colonial development. They have seen to it that the food supply of the masses has first been safeguarded at all hazards.

In Java there has been a tremendous development of what may be called corporation agriculture. One can travel Java from end to end and hardly ever be out of sight of the huge plantations, there called "estates," in which sugar, rubber, cocoa, coffee, tea, and tobacco are grown on a large scale. These are the products that make it possible for this single island less than the size of a single state to produce yearly over $250,000,000 of exports.

A Better Asset

IN order that the population will be sure to have enough food, only one crop of sugar, which is the main cash export crop, can be grown on any tract of land during a three-year period. Sugar takes sixteen months between seed time and harvest; during the other twenty months two crops of rice and two crops of peas and beans are produced for food. Europeans are not allowed to purchase land outright, but they may lease it for long time periods. This is to prevent the natives from bartering away their birthright by selling the land to the whites and then be in a position where they are not able to feed themselves.

The Dutch give the Javanese some education, but spend no more than what they are compelled to. It is only within the last thirty years out of three centuries of Dutch control that any particular effort toward education has been made by the Dutch.

This is in striking comparison with what the Americans have done in the Philippines. In 1925 the Filipinos spent 23 per cent of their total government budget on the education of the 11,000,000 people in the whole archipelago. In Java only 7 per cent of the national budget went to educate a population of 35,000,000. Common labor can generally be had cheaply and the Dutch have operated on the theory that a well-filled stomach was a better asset (for them) than a well-filled brain. So far they have made it work, for the standard return for man labor on the sugar plantations is twenty cents a day, and fourteen cents for women sorting coffee by hand. But the Javanese look askance at the Philippines and wonder why some of the advantages which they see the Filipinos getting under American administration cannot come their way. Here again the yeast is at work, but the ferment progresses slowly because the environment is less favorable. A couple of years ago a direct outbreak occurred but it was quickly squelched under the iron rule of the Dutch.

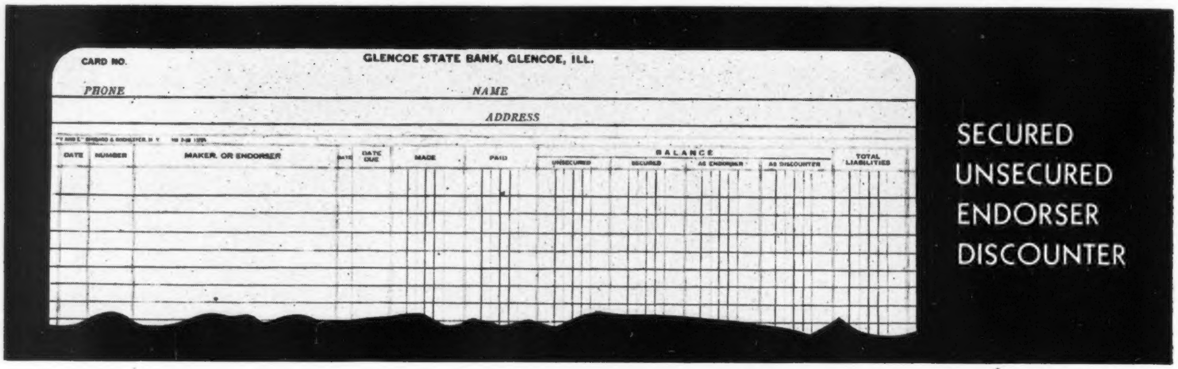
Roads Pierce the Jungle

SO far we have referred to the yeast that is working in the other fellow's dough. When we come to the Philippines it is our dough.

America has been in the Philippines only thirty years, but more has been done to put these people on their own feet in that brief span than during the whole period of the Spanish regime of 350 years. It makes one proud to be an American when you see what has been accomplished, not only in Manila but throughout the islands. Splendidly paved highways run the entire length of Luzon. Three thousand six hundred miles of all weather roads pierce the densest jungles. One of the earlier American governors, W. Cameron Forbes, was such an enthusiastic builder of good roads that he is still called W. "Camarera" Forbes, his middle name designating in Spanish the name for "road maker."

When Manila was captured by Admiral Dewey it was a pest hole for cholera, plague and dysentery. Under American supervision it is now as safe as any American city.

(Continued on page 720)



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Character Loans Call for Caution

By HOWARD HAINES
Cashier, First State Bank, Kansas City, Kansas

Some Simple Rules Insuring Utmost Safety in the Conduct of Small Loan Departments. High Quality is Better Than a Big Volume of Business. Precautions That Preclude the Frauds of Suave Individuals Who Have Introduced Graft Into the Field.

Check-Mate

HAVING set forth the case for character loans in previous issues of the JOURNAL, *describing the setting up of a small loan department and the problems attendant upon its beginning to function, Mr. Haines here discusses the sort of thing that may be attempted any day, in any bank by light-fingered gentry but which may be check-mated by a routine machinery which automatically separates risky from sound prospective borrowers.*

"JUST think of it, dear," bubbled young Mr. G. G. Benton to his sweet little wife. "We haven't had a single loss! The directors complimented me highly after the meeting today. They are proud of the way the small loan department is going over and so am I!"

The G. G. in Mr. Benton's name stands for George Galdon. It might as well have been "Go-Getters"—for that would certainly have defined his brand of vitality. The Sixth National Bank of Uhrtown placed him in charge of their personal loan department eleven months ago.

Mr. Benton had a right to celebrate—$150,000 in good loans and no losses! Any of us can take a compliment or two now and then without harm, even when self-imposed.

It seems we can develop this malady ourselves or get it from others. Formerly it was not considered serious, but recently it has been found to react directly on the eyes, ears and brain in such a manner as to render them partially inactive—while in some peculiar fashion it leaves the sufferer with the idea that he is much brighter than usual.

One of the worst features of "Praiseitis" in any of its forms, is that neither the patient or his associates know he has it until some serious blunder reveals the true semi-coma condition of the cerebrum and cerebellum tissues. The shock of such blunders is sometimes a partial remedy.

In a Mental Haze

THE tragic thing about young Mr. Benton was that he had no temperature-reducing formula to equalize his somewhat glowing ambitions. As a result, during the next few weeks he became unusually sure of himself while a mental haze took possession of his faculties.

It was just at this stage that Thomas Vernon made his appearance. He walked up to Mr. Benton's desk during a busy noon-day rush and inquired:

"May I make application for a loan?"

His quiet manner of speaking was not accidental. He had cultivated that tone of voice in the same way he had developed the art of attiring himself in an entirely inconspicuous manner. He was of medium height, plain featured, and with no physical peculiarity. His eyes were brown and nondescript. From his soft felt Stetson to his slightly worn oxfords there was nothing about him to attract attention. That was his stock-in-trade—being easily forgettable.

The Grocer Liked Him

HE received the note and application blank from Mr. Benton, who did not remember giving it out. Mr. Vernon attributed this to his own unassuming technique and smiled to himself as he departed.

The next day Mr. Vernon returned his application carefully filled out. It stated he was a brakeman for the New York Central Railroad and had been with them ten years. He had no telephone at his residence and could not be reached while at work, so Mr. Benton asked him to call back in a day or two.

Presently a young lady began to verify the statements in Mr. Vernon's questionnaire. She called "information" at the New York Central Offices.

"Yes, Thomas Vernon was a brakeman and had been for ten years—Yes, his record was good and he got $175 a month"—just as his application stated.

Also the New Way Auto Company said he had made his payments promptly and had finished paying for his car last August. The grocer and the landlord liked him, too. He was "all right."

Just Dropped In

AS co-makers he had offered two other brakemen, who also were steady men, according to all sources of reference.

When the application was handed back to Mr. Benton he was just looking it over when Mr. Vernon presented himself.

"Just happened to drop in and thought you might have it ready—I'm laying off today," he explained in his convincing manner.

There was nothing at all about this to incite suspicion—nothing to indicate he was trying to rush things. At least Mr. Benton felt nothing of the sort. No doubt had he known that the applicant once worked in a loan office before he picked up a more lucrative game he would have gone slower.

"OK," said Mr. Benton, "I'll furnish you a receipt book and have a draft for you in a moment."

Another Good Customer

THERE was really little doubt about this being a good loan. Mr. Vernon carried his railroad brotherhood card, as well as a liberal supply of lodge receipts and references, even down to the fact that he was transferred from Sioux City to his present job, checked out correctly.

When Mr. Benton delivered the draft to the borrower he congratulated himself on making another good customer, for Mr. Vernon remarked:

(*Continued on page* 718)

The Road Ahead

Business Conditions and Outlook for Future as Visioned, by President John G. Lonsdale and His Banker Associates at the Washington Conferences, On a Firmer Footing. "There Will be Profits." "Busy and Prosperous." "The West is at Work."

WHEN bankers and business men from all over the nation met in Washington early in December to discuss with President Hoover the economic situation in the light of the readjustment in security prices, it was the consensus of opinion that the basic conditions were sound.

The JOURNAL has asked several of the bankers who accompanied John G. Lonsdale, President of the American Bankers Association, to the Washington conference to give their views of conditions in their respective sections, to provide a more detailed picture than was possible through the necessarily general nature of the meeting at the Capitol. These are their replies:

Met the Credit Crisis

JOHN G. LONSDALE, President, American Bankers Association, Director, Federal Reserve Bank of St. Louis and president, Mercantile - Commerce Bank and Trust Company of St. Louis, said:

"The dawn of 1930 finds American banking in strong, sound condition and fully prepared to finance the activities of industry and trade. Our banks and the Federal Reserve System not only met the recent unprecedented credit crisis but came out of it in stronger position than before.

"Trade and industry, likewise, appear to be on a generally sound basis, with indications that they will continue to give a good account of themselves in the new year. We should, however, realize we cannot go on forever setting up new records and it is time we should be satisfied with just good business.

"The Hoover conferences have had a beneficial effect on business and public confidence has been largely restored through them.

On a Firmer Footing

"THE Eighth Federal Reserve District, of which St. Louis is the financial capital, has enjoyed a prosperous year, some lines of industry, notably steel, shoes and automobiles recording gains over 1928. Wholesale and retail trade also have been satisfactory, the volume being about equal to that of last year.

"Agriculture, the basic industry, is on a firmer footing than last year and the farmer's buying power has been somewhat strengthened in the past twelve months.

"Easier credit, which is now in effect, will have the tendency to encourage business initiative and enterprise, but bankers may be expected to exercise cautious, careful judgment so that only worthy, conservative developments will be favored."

There Will Be Profits

ARTHUR REYNOLDS, chairman of the board of Continental Illinois Bank and Trust Company, Chicago, said:

"The Seventh Federal Reserve District probably reflects more accurately than any other the average condition of business throughout the United States. Accordingly, I expect business and banking in 1930 to be at least as good as the average for the country as a whole. Production trade and profits, at worst, should measure up to the average of 1927.

"Credit will be available, on reasonable terms, to aid in the expansion of business following the current recession. There appears to be no basis for the drastic curtailment of loans. Banks in the Middle West will naturally continue to consider the quality of the individual credit risk, but there is no occasion for banking policies based on the assumption of a period of depression such as was experienced in 1920-21.

"The year of 1930 will put a premium on business management. But there will be business—and profits for those who earn them. Business men can proceed with their plans with confidence, with optimism tempered by experience. And the banks of the Seventh Reserve District, I am sure, will do their part."

Busy and Prosperous

J. T. SCOTT, President, First National Bank, Houston, Tex., said:

"Notwithstanding the fact that the cotton crop in Texas for 1929 is more than 1,000,000 bales short of normal, which will mean that there will be approximately $100,000,000 less available for farmers, merchants, tradesmen and bank deposits, for the time being, the situation still remains that 1930 in the main should be rather a busy, prosperous year for the state as a whole.

"Texas is possessed of so many and varied resources that the failure or partial recession of any one product or business does not nor cannot seriously affect the general situation.

"Much development and construction work, municipal and state, which has been delayed or deferred during recent months by reason of high interest rates, and an unfavorable bond market for such securities, will no doubt go forward at an early date.

"Aside from the distress of the cotton situation, Texas has oil, sulphur, lumber, rice and many other products that have not been so adversely affected and these will help to keep the wheels turning for better times."

The West Is at Work

HERBERT FLEISHHACKER, president of the Anglo and London Paris National Bank of San Francisco said:

"The banking situation on the Pacific Coast is now sound and normal. As anticipated, the drop in call money rates has resulted in bringing funds 'back home.' Credit is available in increasing volume at lower rates, and is being further augmented by a generally satisfactory crop and trade year. Insofar as the financial situation on the Pacific Coast is concerned, the above mentioned repatriation of funds and economic progress more than offset the maladjustments and losses caused by speculative excesses.

"Needed civic and industrial extensions can now proceed with full assurance of abundant credit at reasonable rates, and are so proceeding in fact and in prospect.

"In brief, the West is confident and at work."

Savings Conferences

OF the four regional savings conferences to be held in the spring of 1930 under the sponsorship of the Savings Bank Division, American Bankers Association, the dates for three are scheduled as follows: Tulsa, Oklahoma, March 5-6; New York, N. Y., March 20-21; Detroit, Mich., March 27-28; Salt Lake City, Utah, time to be announced later.

Characteristics of French Securities

By J. D'ALGAY

Wide Variety of Issues on Bourse Makes Possible Important Differences in Rights of Stockholders Both as to Dividends and Voting Privileges. Status Depends Upon the Articles of Association Which Determine the Powers of the Corporations.

IN the previous article of this series the peculiarities of French securities as seen through American eyes were discussed and some of the types of securities listed on the Paris Bourse were described. The next of these types of securities to be described are known as *Actions de Jouissance.* They are issued in connection with the amortization of paid-up capital.

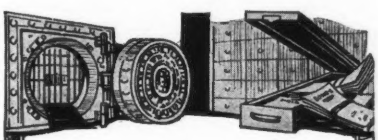
Sometimes French companies pay back to their shareholders the full amount or a portion of the paid-up capital of the shares issued. This happens on two different occasions.

Without Par Value

SOME companies operating under a franchise, such as railroads, electric railways, electricity producers and distributors and other public utilities, must give up the property and plants they operate to the state, free of charge, at the expiration of the franchise. In this case, the articles of association provide that the capital stock must be fully amortized by the time the property will pass over to its new owners, and that a certain amount of the profits will be set aside each year to form a cumulative sinking fund to be appropriated for that purpose.

Sometimes this sinking fund is allowed to accumulate until the termination of the franchise, while, in many cases, it is utilized to repay a certain number of shares each year, just as in the case of bonds redeemable in accordance with an amortization schedule. Shares are drawn, repaid and exchanged for new certificates called *Actions de Jouissance* without par value.

These certificates cease to receive the statutory interest on the old capital paid up, but continue to participate in the superdividend as provided by the articles of association. Should the company be liquidated, they range *pari passu* with the unrepaid shares in the distribution of any net assets, after repayment to the common shares outstanding, of the par value of these shares.



To the Source

IN this, the second of a series of two articles, there are presented several striking examples of how the many gradations in French securities sometimes result in discriminations in favor of one class of stockholders over others. These examples serve to illustrate the principle that American investors in foreign securities cannot be guided by their knowledge of financial practices in this country but must resort to the source of information the author suggests.

Distribution of Bonuses

ACTIONS de Jouissance also originate through the distribution of bonuses by such companies as have accumulated a large surplus in the course of several years of successful operation. Usually companies distribute, as a bonus, a portion of the par value of the capital stock, and, in subsequent years, the statutory interest allocated to the shareholders in the distribution of profits is computed on the balance outstanding of the capital. When all of the capital has thus been paid back, the *Actions Ordinaires* are exchanged for *Actions de Jouissance* without par value.

In other cases, companies reimburse the whole of the capital in a single bonus distribution and the exchange for *Actions de Jouissance* takes place immediately. Subsequently, it may happen that companies find themselves in a position where additional capital is required to finance, for instance, an expansion in business involving the construction of new plants, etc., and when, for some reason or other, they do not want to resort to a bond issue. The procedure in that case is to issue new shares and to call all or part of the capital of the new shares. Consequently, the capital structure of these companies will show some *Actions de Jouissance* and some *Actions de Capital* which will differ only in respect to the statutory interest and repayment of the capital to which the latter are entitled.

Subject to the Income Tax

THE distribution of a bonus may, of course, be made in the shape of a distribution of new shares fully paid to the existing shareholders, free of cost, or by issuing new shares considerably below their market price. Until 1925, the repayment of an amount representing a portion of the capital issued was not subject to the income tax on securities.

At present, any such payment whether in cash or in shares is considered as a distribution of accumulated profits and subject to the income tax on securities. This is important, for the rate of this tax is 18 per cent of the amount distributed, while the issue of new shares at a cheap price does not give rise to the payment of the same fiscal charges.

When the *Actions de Jouissance* come into being through the working of a sinking fund, their number is very small in the first years, increases slowly, and for about two-thirds of the redemption period is inferior to that of the non repaid shares outstanding. Their market is consequently narrow and inactive and, when buying for a long time investment, it may be advisable to examine whether there is not a differential in prices in favor of *Actions de Jouissance.*

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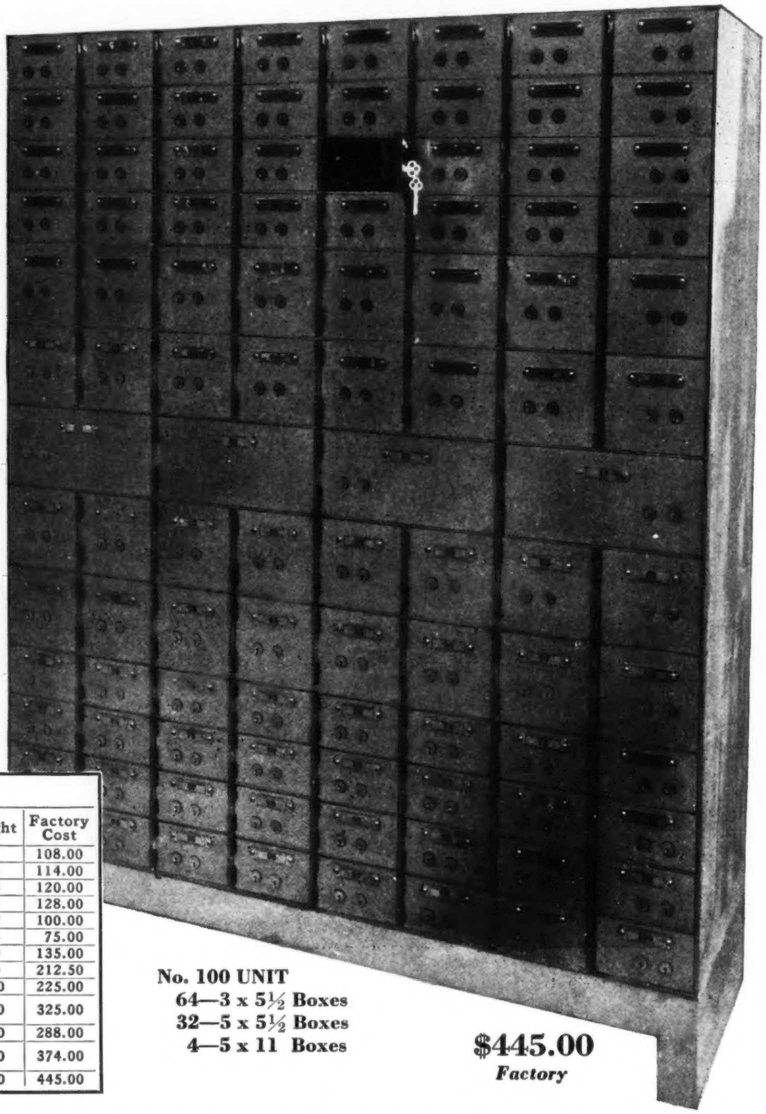

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C	24	4x5½	16⅞	33¼	24	488	120.00
D	24	5x5½	20⅞	33¼	24	541	128.00
E	12	5x11	20⅞	33¼	24	462	100.00
F	2	17½x16½	18	33¼	24	274	75.00
30	30	3x5½	19¼	27⅞	24	600	135.00
52	50	2x5½	21⅞	27⅞	24	900	212.50
53	50	3x5½	31⅞	27⅞	24	1000	225.00
75	50 25	2x5½ 3x5½	37½	27⅞	24	1280	325.00
64	64	3x5½	25½	44⅜	24	1500	288.00
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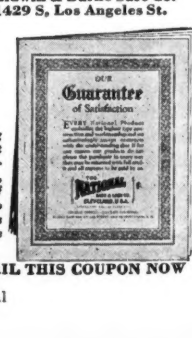

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Characteristics of French Securities

By J. D'ALGAY

Wide Variety of Issues on Bourse Makes Possible Important Differences in Rights of Stockholders Both as to Dividends and Voting Privileges. Status Depends Upon the Articles of Association Which Determine the Powers of the Corporations.

IN the previous article of this series the peculiarities of French securities as seen through American eyes were discussed and some of the types of securities listed on the Paris Bourse were described. The next of these types of securities to be described are known as *Actions de Jouissance*. They are issued in connection with the amortization of paid-up capital.

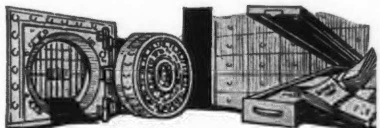
Sometimes French companies pay back to their shareholders the full amount or a portion of the paid-up capital of the shares issued. This happens on two different occasions.

Without Par Value

SOME companies operating under a franchise, such as railroads, electric railways, electricity producers and distributors and other public utilities, must give up the property and plants they operate to the state, free of charge, at the expiration of the franchise. In this case, the articles of association provide that the capital stock must be fully amortized by the time the property will pass over to its new owners, and that a certain amount of the profits will be set aside each year to form a cumulative sinking fund to be appropriated for that purpose.

Sometimes this sinking fund is allowed to accumulate until the termination of the franchise, while, in many cases, it is utilized to repay a certain number of shares each year, just as in the case of bonds redeemable in accordance with an amortization schedule. Shares are drawn, repaid and exchanged for new certificates called *Actions de Jouissance* without par value.

These certificates cease to receive the statutory interest on the old capital paid up, but continue to participate in the superdividend as provided by the articles of association. Should the company be liquidated, they range *pari passu* with the unrepaid shares in the distribution of any net assets, after repayment to the common shares outstanding, of the par value of these shares.



To the Source

IN this, the second of a series of two articles, there are presented several striking examples of how the many gradations in French securities sometimes result in discriminations in favor of one class of stockholders over others. These examples serve to illustrate the principle that American investors in foreign securities cannot be guided by their knowledge of financial practices in this country but must resort to the source of information the author suggests.

Distribution of Bonuses

ACTIONS de Jouissance also originate through the distribution of bonuses by such companies as have accumulated a large surplus in the course of several years of successful operation. Usually companies distribute, as a bonus, a portion of the par value of the capital stock, and, in subsequent years, the statutory interest allocated to the shareholders in the distribution of profits is computed on the balance outstanding of the capital. When all of the capital has thus been paid back, the *Actions Ordinaires* are exchanged for *Actions de Jouissance* without par value.

In other cases, companies reimburse the whole of the capital in a single bonus distribution and the exchange for *Actions de Jouissance* takes place immediately. Subsequently, it may happen that companies find themselves in a position where additional capital is required to finance, for instance, an expansion in business involving the construction of new plants, etc., and when, for some reason or other, they do not want to resort to a bond issue. The procedure in that case is to issue new shares and to call all or part of the capital of the new shares. Consequently, the capital structure of these companies will show some *Actions de Jouissance* and some *Actions de Capital* which will differ only in respect to the statutory interest and repayment of the capital to which the latter are entitled.

Subject to the Income Tax

THE distribution of a bonus may, of course, be made in the shape of a distribution of new shares fully paid to the existing shareholders, free of cost, or by issuing new shares considerably below their market price. Until 1925, the repayment of an amount representing a portion of the capital issued was not subject to the income tax on securities.

At present, any such payment whether in cash or in shares is considered as a distribution of accumulated profits and subject to the income tax on securities. This is important, for the rate of this tax is 18 per cent of the amount distributed, while the issue of new shares at a cheap price does not give rise to the payment of the same fiscal charges.

When the *Actions de Jouissance* come into being through the working of a sinking fund, their number is very small in the first years, increases slowly, and for about two-thirds of the redemption period is inferior to that of the non repaid shares outstanding. Their market is consequently narrow and inactive and, when buying for a long time investment, it may be advisable to examine whether there is not a differential in prices in favor of *Actions de Jouissance.*

Parts de Fondateur or founders' shares are an entirely different type of security. They merely represent a claim of the holders on a certain pro-

portion of the profits and ultimately of the net assets, after the shares have received the statutory interest and in case of liquidation after the amount of the capital paid up has been repaid. In other words, the holders are in no way corporate associates and are merely contingent creditors in respect to superdividends.

A great many companies have issued founders' shares, which, as indicated by the name, are handed over to the promoters as a compensation for their efforts and preliminary studies and sometimes also for tangible assets. Occasionally original shareholders receive founders' shares in a certain proportion to the capital subscribed, but the public negotiation of founders' shares is not legal for two years from the date of the incorporation of the company. Founders' shares have no par value. The proportion of the profits to which they are entitled varies considerably. In a majority of cases this proportion is 25 or 30 per cent of the profits left after statutory appropriations to the legal reserve, interest on the capital paid-up, directors' dividends and amortization and reserves. Certain founders' shares receive as much as 50 per cent or even more. Others receive only a very small percentage of the balance of profits or have their dividends limited to a maximum. Still others participate in profits, but not in any eventual distribution of net assets, and there are even cases where they receive no cash dividend at all, but only enjoy certain privileges, such as the right to subscribe a certain proportion of any new shares which may be issued, should the capital be subsequently increased.

Large and Fashionable

FROM a speculative viewpoint, founders' shares sometimes offer very attractive features. It is easy to see that, in each case, on the basis of the statutory distribution of profits, for each franc of superdividend paid to the common shares there is a certain number of francs allotted to the founders' shares. For instance, founders' shares may receive 5 francs to each franc allotted to the common shares after statutory interest.

The consequence is that if the profits expand, the dividends of the founders' shares will increase more rapidly than that of the common shares. In the second place, if the company augments its capital and the profits increase correspondingly, the founders' shares may receive a larger dividend in proportion to each franc distributed over the statutory interest.

Take for instance the *Galeries Lafayette*, one of the largest and most fashionable dry goods stores in Paris. Its profits are divided as follows: 5 per cent to the legal reserve; statutory interest of 7½ per cent to the shareholders; appropriations to directors' dividends and to amortization, and the balance in the proportion of one-third to the common shares and two-thirds to the founders' shares. There are 1,500 founders' shares. In 1922, when the capital was 60,000,000 and the company distributed 20,000,000 of profits, the common shares received 11.6 francs per share and the founders' shares 287.63 francs per share; the next year, the capital was increased to 100,000,000 and the profits distributed were maintained at 20,000,000 francs, the common shares received 8.85 francs and the founders' shares 1,800 francs; in 1926, the capital being 100,000,000 francs and the profits increased to 40,000,000, the dividend of the common shares increased to only 14.85 francs, while the founders' shares received 9,800 francs. This, of course, is an extreme case which reflects the results of exceptional prosperity combined with a rather abnormal status in the structure of the capital and distribution of profits. In fact, when this company was founded in 1899, its capital was only 2,300,000 francs divided in 23,000 shares of 100 francs each of which 10,000 shares and the 1,500 founders' shares represented the compensation of the former partners when they decided to transform their firm into a company.

By Leaps and Bounds

OTHER instances could be found of founders' shares, the dividends of which have increased by leaps and bounds. In anticipation of the possibility that the distribution to the founders' shares may exceed what would normally be fair and reasonable, the articles of association of many companies contain clauses limiting the dividends of the founders' shares or providing for the retirement of the founders' shares by purchase from the holders.

The conditions for such purchase vary greatly. Sometimes a fixed price is stipulated, or it contemplated that the price will be determined by capitalizing the dividends paid in the last five years at a given rate of interest. Occasionally, no indication is given and the purchase is a matter to be settled by negotiation and arrangements with the holders.

The original Company Law of 1867 did not even mention founders' shares which consequently had no legal status. The relative rights of founders' shares and common shares were exclusively governed by the articles of association which sometimes were not clearly worded. Unless an association was formed between the holders of the founders' shares, when they were created, in order to group the interests of all the holders and make any decision taken by a majority binding for one and all, any individual holder retained his own rights and could, for instance, refuse to accept the terms of the purchase offered by the company and accepted by all other holders except himself.

Consequently it sometimes happened that while most of the founders' shares had been bought back and cancelled, there still remained a few founders' shares outstanding. So long as they were outstanding it was impossible for the company to effect any modification to the original terms of the articles of association that might appear desirable for the general welfare of the company in respect to capital structure, distribution of profits, etc.

No Voting Powers

A RECENT law has filled up this gap in corporate legislation. It defines the status of founders' shares, groups all the holders in an association and makes binding for all any decision that may be taken by a majority of two-thirds at least of the founders' shares represented at all meetings of the holders convened to deliberate on any question affecting their rights, such as modifications in the form of the founders' shares, participation in the profits, purchase by the company and transformation of the founders' shares into capital stocks or bonds.

On the other hand, the holders of founders' shares, who hitherto had not even the right of inspection of the balance sheets of companies, may henceforward appoint representatives to shareholders' meetings. As they are not corporate associates, these representatives have no voting powers, but they are entitled to obtain from the company all information in respect to business and accounts imparted to shareholders. Furthermore, any modification in the articles of association bearing on the object or structure of the company must be submitted to the approval of the holders of founders' shares. It is also provided that, in the course of its corporate existence, it is legal for any company to eventually create new founders' shares, if advisable, in addition to those already existing and that such new founders' shares may have different rights from those originally created.

Unexpected Modifications

THIS law has been too short a time in existence to provide any interesting examples of the manner in which it may affect the financial policy of companies, and the respective prospects of capital shares and founders' shares. It will be well to remember, however, that the rights of founders' shares as laid

(*Continued on page* 728)

The British Committee on Finance and Industry

By C. J. S. SPRIGGE
Financial Editor, The Manchester Guardian

British Advisory Committee on Current Financial Conditions Undertakes Solution of Pressing Problems Besetting Industry and Employment in England. Widely Divergent Political Views Complicate Inquiry Into Banking System and Credit Policies.

THE Chancellor of the Exchequer of Great Britain, Mr. Philip Snowden, early in November appointed a committee of fourteen to investigate current financial conditions in their relation to industrial efficiency and employment. Unlike the series of conferences held by President Hoover recently with committees of American business men the British undertaking consists of a formally constituted body created to advise the government.

The committee has organized and has taken the initial steps toward what may be a protracted inquiry. The terms of reference by which its task was set are immensely wide, and the views of the fourteen men on the subject they are to investigate widely different. Here we will try to show in what circumstances the committee has been called into being, and in what atmosphere it is tackling its job.

Not a Model

ONE outcome of the recent Washington business conferences has been the suggestion that the United States should have a permanent advisory council of business men. England has one. How it came into being and what it is attempting to do is described in this article which reveals that in Great Britain, at least, investigation of the economic situation means an inquiry into the banking system. It is hardly likely that the British plan could be considered as a model.

A Brief Glow

GREAT BRITAIN has never, since 1914, felt that her economic organization was functioning properly. There was a brief feverish glow of prosperity in 1919, but this was the result simply of rising prices, which put wealth in the hands of traders, having first taken it out of those of the salary-earning classes. There was indeed a short-lived production boom in the heavy industries, due to the devastation of the industrial plant of western Europe, and the disorganization of Germany. But everyone could see that this must be short lived.

The great depression which followed dates from April, 1920, when the bank rate was raised, and the very classes which had been earning vast percentages from the rise in prices began to question the level of those prices. American readers hardly need to be reminded how this sort of thing happens.

Every British Government elected since 1922 has held the restoration of industrial and trading prosperity, with a view to eliminating unemployment, to be its first task. The Conservative Party, that is the rank and file of its active workers, sees protective tariffs, national or imperial, as the only serious means to this end. The Labor Party advocates nationalization. The Liberal Party, which has fought three elections with obviously diminishing chances of being returned to power, has taken on the role of intellectual critic of the other two parties, and produced in 1928 the "Liberal Yellow Book" which was the fruit of an arduous research into the causes of unemployment.

Elusive Theories

PARTLY outside the political organizations, and partly within them, there has developed, however, a school which sees the cause of unemployment in an alleged maladjustment of the financial system to the needs of the nation. The extreme representatives of this school are Major Douglas, a retired military engineer, and Professor Soddy, a distinguished biochemist.

These two men of penetrating intelligence have produced similar theories purporting to show that there is an erroneous train of reasoning in the accepted methods of financing industry, in consequence of which there is always an excess of goods produced over and above what the buyers can possibly afford. Such views have convinced a certain number of people that it only needs some legislation on the lines of the Douglas theories to promote an age of unexampled prosperity in Britain.

The banks, profiting by the present faulty system, are accounted by these people to be the enemies of the true interests of the community. Major Douglas' reasoning is so elusive that nobody has been able to confute his arguments, but he has not persuaded any politician or first class public man to take him seriously. However, in certain quarters in the Labor Party the negative side of the Douglas argument, that is the belief that the banks are the enemies of national prosperity, has taken firm root.

Archaic and Retrograde

DOUGLAS, Soddy and their disciples claim to have revolutionized economic thought, although they have scant prestige among economists. But among the economists there is a group which thinks that the officials of the Treasury, the leading bankers, and Mr. Winston Churchill as Minister of Finance have between them forced the nation into a financial policy which is archaic, retrograde and responsible for much of the present disorganization.

This is the Cambridge group dominated by Maynard Keynes, and its views have penetrated to a select if not numerous public. Mr. Keynes strongly opposed return to the gold standard in 1925, and continues to assert that if

the British price level had not been screwed down to enable the pound to recover parity with the dollar, British industry and trade would not now be in such a quandary.

Mr. Keynes holds that the moment has come when the authorities should shoulder the task of "managing" the currency so as to keep the internal price level stable. He thinks that in accepting an obligation to buy and sell gold at a fixed price in all circumstances the Bank of England has tied itself to the Federal Reserve System, on whose policy depends the future purchasing power of gold.

These views color the Liberal "Yellow Book" which has been read for guidance far beyond the limits of the Liberal Party, and in the minds of the mass of vague thinkers have confirmed the suspicion that there is something in what the "currency cranks" say; that the banks, with their nation-wide ramifications and their unreported councils, are somehow responsible for the disorganization of industry.

Straight to the Root

THUS in all parties, including even the Conservative, there have been groups agitating for the leaders to go straight to the root of the nation's difficulties by rudely withdrawing the veil which conceals the bankers' activities from the eye of the public. There is also an element of local antagonism between London and the North of England which comes into play. The industrialists of Lancashire and Yorkshire and Glasgow, who now adhere mostly to the Conservative Party, feel that the banking system, controlled from the head offices of the Bank of England and the five big joint stock banks, is too much interested in international problems and too little devoted to the care of British industrial interests. They regard the banks as our soldiers regard the War Office, being suspicious of men who from armchairs in warm offices have so much control over the destinies of those who actually direct the physical operations of industry.

There being such animosities and suspicions in the air, one can well understand that the new government, on coming into office, was urged by many of its supporters to tackle the banking question. But the Labor Party, having in its ranks few men with any practical experience of finance, has an inferiority complex about money matters and is afraid of making a fool of itself. This makes the position of the Chancellor of the Exchequer, Mr. Philip Snowden, who is believed to have a firm grasp of the essentials of financial theory, very strong. Mr. Snowden does not believe that the banking system is defective, or that investigation into its workings can help to reorganize the industry of the country, and but for special circumstances he would have successfully opposed the project of such an examination.

Inordinate Profits

THESE special circumstances were outside Britain. They were located partly in the United States of America and partly in France. Shortly before the Labor Party took office the British bank rate was raised to 5½ per cent, and shortly after it took office it was raised again to 6½ per cent. The first rise was designed to counteract the drain of funds from this side to New York, where the British banks were reputed to be loaning out many million pounds to stockbrokers, and earning inordinate profits thereby. The second rise followed upon a persistent drain of gold from London to Paris.

The second rise in the bank rate was on September 26. It was followed by a sharp press campaign conducted by Lord Beaverbrook in his popular organs the *Daily Express* and *Evening Standard*. The Bank of England was attacked as a secretive and oligarchical institution which reached decisions on matters of national policy on grounds incomprehensible to the public, and without consideration of the developments of monetary science in the last quarter century. This outburst was eagerly noted by all the people who feel that the banks are to blame for what's wrong with the world, and for a few days Ministers of the Crown, trade union leaders, and well-known industrialists were making public statements condemning the act of the Bank of England in raising its rate.

Meanwhile the Labor Party was holding its annual congress at Brighton. Premier Macdonald was in America. Pressure was brought upon Mr. Snowden, acting leader of the party, to "do something about the bank rate question." One Labor leader declared that every one per cent rise in bank rate meant a quarter of a million more unemployed. Mr. Snowden characteristically replied by giving the party a stiff lecture on the theory of the bank rate, and then, thinking he had delivered the last word on the subject, he announced that he would shortly appoint a committee to examine the whole question.

Prices Began to Crumble

THE agitators were pacified, and the financiers of the City of London were so pleased with Mr. Snowden's lecture, which amounted to a complete defence of the existing situation, that they overlooked his promise to appoint a committee of inquiry. The Wall Street price level then began to crumble, the daily rate for call money in New York declined, and the bank rate was reduced by one-half per cent after six weeks at the top level. When the terms of the inquiry and the composition of the committee were announced on November 5, the public had its attention turned to other matters.

But there are people in England who, without regarding the banks as a mysterious power for evil, and without blaming the Bank of England for raising its rate at a very critical moment, having refrained from doing so earlier when the reason might well have been found, think that the committee having been formed must be made to work for the highest national advantage. Among its members are included some who certainly will not sit down to a merely academic program.

On this committee monetary science is represented by J. M. Keynes of Cambridge and T. Gregory of the London School of Economics, Banking by Reginald McKenna of the Midland Bank and R. H. Brand of Lloyds, with A. A. G. Tulloch of the District Bank to answer for the provincial banks which are not yet absorbed by the Big Five. The official element is made up by Lord Bradbury, formerly Permanent Secretary to the Treasury and British member of the Reparations Commission, and Cecil Lubbock, a director of the Bank of England, while the president of the committee, H. P. MacMillan, is a well known lawyer. There are two business men, Sir Walter Raine, who is interested in coal, and Sir Thomas Allen, chairman of a number of cooperative societies. J. T. Newbold was once a communist, and now leads a socialist group of theorists, while Ernest Bevin and Lennox Lee are spokesmen of two trade unions.

Split Into Camps

THE terms of reference to the committee, are "to inquire into banking, finance and credit, paying regard to factors both internal and international which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of commerce and the employment of labor."

There would be no end to an investigation on these lines unless the actual situation indicated the real task of the committee. These indications are supplied by the unemployment figures. When we consider what the permanent unemployment of half of these persons (taking the other half to represent those whose lack of occupation is transitory) signifies in terms of personal frustration and economic wastage, and when we see the nation not united in combating this evil, but split into camps under the banner of different theories, we need to fall back upon the most robust faith in our country's destiny if we are to escape a helpless melancholy.

(*Continued on page* 722)

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TODD SYSTEM OF CHECK PROTECTION

Liquidity in Bank Investments

Bank's Policy Should Be Dependent on Both Probable Demands of Depositors for Cash and Loans. Its Investments Should Be of Such a Character and Maturity Not Only to Meet These Demands But to Do So Without Loss of Principal or Interest.

CHANGES in the character of American banking have necessitated changes in the investment policies of banks. But there has been no change in that primary essential of sound banking which is liquidity.

An important contribution to the science of bank investments, with specific consideration of liquidity, in the light of present-day conditions was made recently by Frederic H. Curtiss, chairman of the board of the Federal Reserve Bank of Boston, in an address to the stockholders of that institution. THE JOURNAL is presenting excerpts from that address in which Mr. Curtiss said:

Higher Returns

"There has been a considerable change in the character of business done by the member banks not only in New England but also throughout the entire country. Up until a few years ago our banks were largely commercial institutions but today the tendency is more toward their becoming investment institutions, somewhat analogous to the savings banks. These changes have brought new problems, for the average commercial loan has been a somewhat more liquid asset in normal times than long term bonds and real estate loans. On the other hand, time and savings desposits, if properly classified, are subject to less fluctuations than demand deposits, and therefore do not need to be invested in as quickly convertible security as demand deposits. A bank's policy should be made dependent, on the one hand, on the probable demands of its depositors for cash and loans, and, on the other hand, its investments should be of such a character and maturity not only to meet such demands but to do so without loss of principal or interest.

"The trend of changes in the deposit liabilities of New England member banks, reflecting a decrease of demand and an increase in time deposits, has been accompanied, of course, by higher rates of interest paid on deposits and there has been, therefore, a rather marked tendency in banks, as might be supposed, to seek investments yielding higher returns. This tendency has manifested itself in real estate loans, high-yield bonds and collateral loans. In the case of mortgage loans and high-yield bonds there is, of course, the question of marketability, for local mortgages, however good, have a narrow market and high-yield bonds even if listed must have a fairly narrow market or their yield would not be out of line with the general run of high grade bonds. Therefore the proportion of a bank's assets that can safely be carried in such investments depends on the class of business that a bank is doing.

Subject to Variation

"FROM time to time I have had occasion to discuss with executives of member banks an investment policy calculated to meet the changing conditions in the business done by their banks, and this has led to our having drawn up what we have come to call a liquidity chart. On this chart the assets of the bank have been divided into four classes: Primary reserves, Secondary reserves, what we have termed a Permanent Investment Fund, and finally Fixed Assets. In laying out a policy of operation for a bank, I believe it is desirable to segregate a bank's investments and classify them in somewhat the manner that is outlined in this chart.

"Now, what proportion a bank should hold of each of these classes of assets depends, of course, on the character of a bank's business—the stability of its demand and time deposits and other liabilities, and the size of its capital and

(*Continued on page* 716)

Liquidity Chart

PRIMARY RESERVES

(Immediately Available Without Loss or Depreciation of Principal or Interest)

Vault Cash
Collected Balance in Federal Reserve Bank
Collected Balances in Other Banks
Exchanges for Clearing House

SECONDARY RESERVES

(A Reserve With Somewhat Slower Availability, but Readily Usable)

Notes Eligible for Rediscount with Federal Reserve Bank (Both as to Character and Maturity)
Bankers Acceptances (Eligible For Sale to Federal Reserve Bank)
United States Securities Unpledged (Collateral for Loan at Federal Reserve Bank)
Call Loans to Brokers (Properly Margined)
Short Term Bonds
Other Checks in Process of Collection, etc.

DEPOSITS DEMAND

INVESTMENT FUND

Long Term Bond
Purchased Paper Ineligible for Rediscount
Time Loans to Brokers
Real Estate Loans
Collateral Loans to Customers
Notes of Customers Not Eligible for Rediscount with Federal Reserve Bank

TIME AND SAVINGS DEPOSITS

FIXED ASSETS

Bank Building
Furniture and Fixtures
Other Real Estate Owned

CAPITAL, SURPLUS AND UNDIVIDED PROFITS

More Routine Profits Required

By J. H. SIMPSON
Canadian Bank of Commerce, Seattle, Washington

Future Earnings of Banks Depend More Upon Adequate Charges for Services Rendered Customers Than on Trend of Business Conditions. Other Departments Besides Checking Accounts Are Able to Collect Fees Which Mean Expanding Annual Incomes.

ONE of the leading writers in Canada on banking and kindred subjects recently had this to say:

"Canadian banks, in their competition for business, have cut their charges too fine and given too much free service. American banks, on the contrary, have quite bluntly stated that, unless an account yields an adequate profit, they do not want it. And the public seems to like this attitude.

"The American method of announcing a change in rates or charges is to advertise the decision of the local banks over their signatures. The reasons for their decisions are stated, followed by the announcement that, on and after a certain date, certain charges will be made for specified services. The charges are fair, there are no exceptions, and consequently no discussion. Each customer knows just what any particular service will cost, and also that no one will get it any cheaper, and he pays without question."

Too Rosy a Picture

IS this not painting too rosy a picture of our over-the-counter relationships? Certainly it is of mine.

There may be sections of the country to which these remarks still apply. I believe they were generally applicable some years ago, but I was not here then so with me it is only hearsay. "The past was goodly once," as the poet put it, but what we need to butter our parsnips are present and future profits, not past ones.

On the Pacific Coast, at least, the amount of service given by the banks for nothing is at least equal to that given by the Canadian banks. For the last five years we seem to have been indulging in an orgy of rate-cutting. Competition, of course, has been the reason, the same as in Canada.

And this is the point: We have been able to cut rates in our legitimate banking business because of the profits we have been making on the side. Trust departments, the call-loan market, and the stock market.

Day by Day

AN unusual view of the economic outlook as applied to banking is taken in this article. The idea is advanced that bankers need study less the probable long-time results of the violent readjustments in the security markets if they ponder more the possibilities of increasing their day-by-day returns from the ordinary operations of their banks. A number of ways for adding to income are suggested that may have been overlooked even by those who have already begun the process.

Hum-Drum Business

AND the stock market. . . . What has the stock market got to do with a bank's profits? Nothing, of course; that is, except as regards possible losses on collateral loans. But during the last few years how many banks have formed First National securities companies?

I am not criticizing these companies. But I am calling attention to the psychological effect they have had on the more hum-drum business of banking, *per se.*

Many writers have been talking about the "new era" in banking. The idea is abroad that banks should become like drug stores, to whom the selling of drugs has become a side line.

And now the time has come to face the situation. Are the security companies going to make the profits in the next five years that they made in the last? In the opinion of this writer they are not.

A Form of Charity

THE literature on the subject of minor profits has centered, largely, on service charges on checking accounts, and perhaps rightly so. When an average balance of less than say $500 is maintained in a checking account the profit in it is not commensurate with the work and the risk involved, unless, of course, the account is inactive. Few of them are. Every banker in the country who has analyzed his current accounts has been astounded to find what a small percentage of them run over $500, and the worst of it is the small personal account, being used to pay for everything from a box of cigars to a motor car, is just as active, often more active, than the larger account.

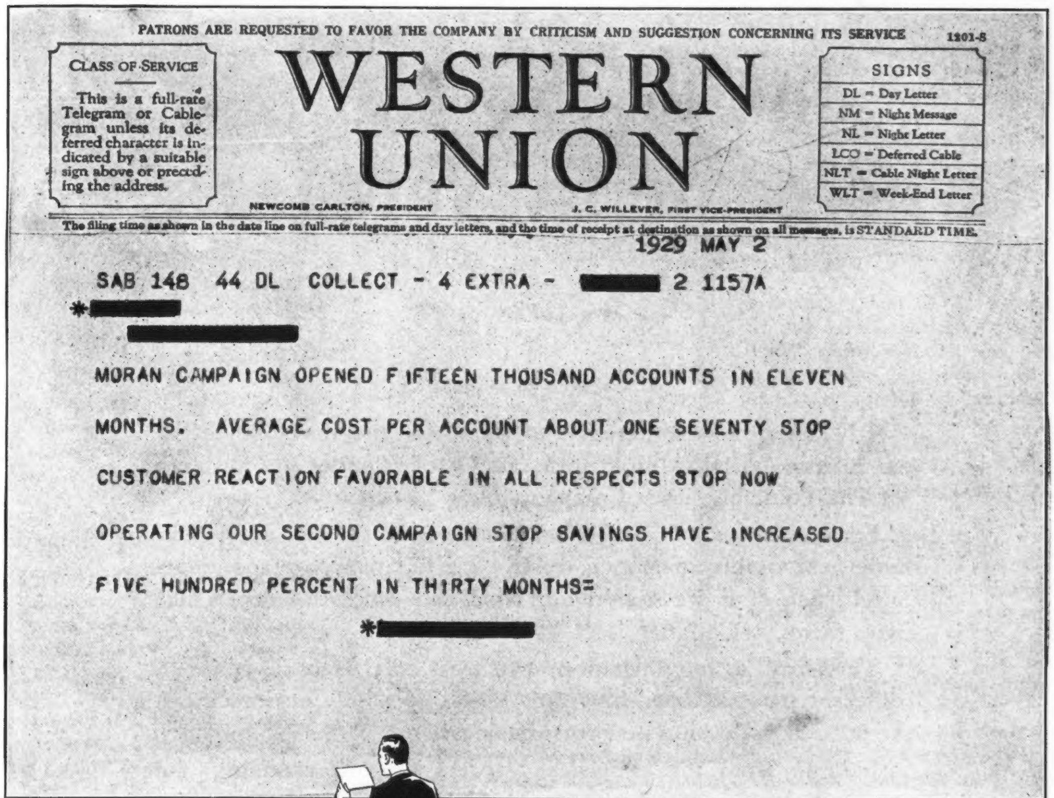
It is fruitless, however, to discuss the advisability of obtaining larger balances. Banking service, like a lot of other things, has been "produced" to the point where the small accounts are required, despite the small profit, to keep the machinery running. If, for the sake of argument, all banks announced that they would discontinue checking accounts of less than $500 there would ensue a wholesale scrapping of mechanical equipment and a wholesale discharging of surplus staff. The idea simply isn't in line with the modern concept of progress.

So it follows that the small account must be retained, and must be charged. The American is supposed to dislike charity; very well then—he should understand that unless he pays a fair fee for the bank's services, he is obtaining those services by virtue of the profit which the bank makes out of its wealthier customers. Is that not a form of charity?

But there are other "routine" departments besides the checking accounts. There is, for instance, the foreign exchange. How many foreign exchange departments are being operated now at a profit? I hope I am wrong but I believe that a man can "shop" with his

(*Continued on page* 723)

What one bank said to another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Why Prices Stayed Put

By FREDERICK A. BRADFORD
Associate Professor of Economics, Lehigh University

Stability of Commodity Prices Has Been Despite Rather Than Because of Federal Reserve Policies Is Contention. Attitude and Actions of Business Enterprises Assigned as Real Cause. Possibility of Control of Specific Uses of Credit Doubted.

THERE has been a growing tendency among certain students of money and banking in recent years to ascribe the fairly stable level of commodity prices which has prevailed in this country to the credit control exerted by the Federal Reserve System. This tendency is especially to be noted in foreign observers, although not confined to them entirely.

Mr. Hawtrey of the British Treasury, writing of the post-war period in the United States, states that the reserve banks "substantially . . . have adopted the policy of stabilizing prices." Mr. Bellerby also appears to hold a similar view. Finally, to mention but one more instance, Professor Cassel of Sweden has, for a number of years, taken the same position in a most emphatic manner.

A Foreign Viewpoint

IN the December 1929 issue of the *Journal*, Professor Cassel sets forth his views on the subject in a clear and decided fashion. He states, for example, that "as a matter of fact the Federal Reserve System has succeeded in so restricting its supply of means of payment that an enhancement of the general level of prices has been avoided." And again, as another matter of fact, "the Federal Reserve System has proved, for the first time in economic history, that a central bank has the supply of means of payment so completely under its control that it is perfectly able to prevent a rising tide of industrial prosperity from causing an inflation of the currency."

What is the basis of these dogmatic statements of "matters of fact"? Not the intent of the Federal Reserve Board, for Professor Cassel admits that a stable price level may not have been the board's objective, but asserts that "banking policy . . . should be judged according to its results rather than to the aims that may have been expressed by its leaders." But if the aims of the Federal Reserve Board cannot be given any weight, what can? Merely the fact, it would seem, that the wholesale commodity price level has not risen. This is an observed fact. Therefore, it has been

Stability

THIS article directly challenges the European viewpoint, as exemplified by Professor Gustav Cassel in the December JOURNAL, *which attributes the absence of inflation in American commodity price levels to the credit control policies of the Federal Reserve System and also takes strong exception to the assertion that the central banking machinery can afford to function without due regard to conditions in the security markets.*

the result of Federal reserve policy. This is reasoning of the loosest sort and will not bear analysis.

Actually, the situation has not been so simple. As an instance of the movement of bank credit during the past five years, let us examine the figures for total loans of all member banks during the past five years on or near June 30. This total advanced steadily from \$20,655,000,000 in 1925 to \$25,658,000,000 in 1929, an increase of nearly 25 per cent. At first glance, it might seem that the expansion of loans had just about kept pace with the increase in production as shown by the board's index, which advanced from 102 in June 1925 to 126 in June 1929.

Loans of Member Banks

IT is necessary to break the loan figures up into their component parts, however, before any real light is shed on the situation. This has been done in the accompanying table.

The figures for loans under the head of "all other," which are largely commercial, are the ones which are indicative of the extent to which the expansion of bank credit has served the needs of industry. Loans of this character have expanded less than 10 per cent in the period under review. The bulk of the expansion has been in loans on securities and those secured by real estate. The latter can scarcely have contributed greatly to the maintenance of a stable level of commodity prices, but it has contributed to price increases along other lines.

There seems to be no good reason for adhering to the level of commodity prices at wholesale in trying to estimate the results of banking policy on the price level when the expansion of bank credit very clearly affects other groups of prices as well. If a comprehensive index of the general price level, such as that of Carl Snyder of the Federal Reserve Bank of New York, is used as a criterion, somewhat more accurate results should be anticipated.

Easy Money

AS a matter of fact, Mr. Snyder's index shows an almost uninterrupted advance from 158 (average) in 1922 to 180 in 1929, an increase of nearly 18 per cent. During this entire period, up to 1929, the Federal reserve banks have maintained discount rates at comparatively low levels, much of the time at levels which spelled easy money. Average rates charged by the reserve banks on bills discounted ranged from a low of 3.70 per cent in 1925 to a high of 4.56 per cent in 1928, while the range on bills

Loans of All Member Banks (On or Near June 30), 1925-1929
In Millions of Dollars

Loans	1925	1926	1927	1928	1929
Total	20,655	22,060	22,938	24,303	25,658
On securities	6,718	7,321	8,156	9,068	9,759
Secured by real estate	2,338	2,650	2,926	3,068	3,164
All other	11,599	12,090	11,856	12,167	12,735

bought was from 3.08 per cent in 1924 to 4.16 per cent in 1923. Rates such as these are hardly indicative of credit restriction, regardless of the intent of the reserve authorities, and it is clear from the continued expansion of bank credit throughout recent years that no apparent restriction occurred prior to 1929.

The combined evidence of the increase in bank loans, the advance in Snyder's index of the general price level, and the relatively low rates charged by the reserve banks would lead to the conclusion that the period has been one of mild inflation, as evidenced by the gradual but persistent rise in the general price level. Since the wholesale price index has not risen appreciably or for long since 1925, however, we should also have to conclude that such inflation as has existed has not been in commodity prices, the expansion of credit having made possible speculative booms in real estate and in the stock market instead.

In view of the preceding discussion, we shall have to look elsewhere than to banking policy for an explanation of the comparatively stable commodity price level of recent years. It is to be found largely in the attitude and actions of business enterprises. In spite of the speculative orgy in the stock market, and certain earlier real estate booms, business has been conducted, on the whole, in most exemplary fashion. Inventories have been kept remarkably small, the turnover of stocks has been speeded up, and funds obtained under favorable conditions through the flotation of stock issues have been used to strengthen the cash position of the issuing companies to an unusual extent, thus lessening their dependence on the banks. Moreover, the period has been one of unusually keen competition which, in turn, has frequently resulted in lowered prices to the consumer. Last, but not least in importance, there has been a wide resort to the collection and analysis of statistical data by the larger enterprises which has enabled them more accurately to adjust their production and distribution to consumer demand than was possible in prewar years.

Without Direct Resort

THESE are the factors, then, which have made possible a fairly high degree of stability in commodity prices while bank credit was expanding apace. It goes without saying that the profits which business has enjoyed have also depended upon a wide and active consumer demand, a demand which has been stimulated by steady employment at high wages, and, to some extent, by improved methods of installment selling which have made the purchase of certain types of goods—such as automobiles—relatively easy. It is to be noted, however, that when consumer demand has fallen off somewhat, as it has for some brief periods, business enterprises, not having heavy inventories to liquidate, have been able to meet the situation without a radical readjustment of prices.

Another opinion of Professor Cassel and others which is at least open to doubt is that the reserve banks should not interest themselves in stock prices, but should devote their attention solely to the maintenance of a stable level of commodity prices. That the reserve banks should not concern themselves with the level of stock prices, *per se*, is a statement which would find rather general assent. That they should ignore entirely the uses to which reserve bank credit is being put is, however, a quite different proposition. The intent of the Federal Reserve Act is undeniably clear in this connection. The reserve banks are not supposed to extend credit for use in making stock market loans, and the fact that such loans were being made in part on the basis of reserve bank credit fully justified the Federal reserve authorities in taking steps to eliminate this practice.

It is interesting to note, nevertheless, that the steps taken were not, in fact, brilliantly successful. The reason they were not is not far to seek. It is impossible for the reserve banks to control the use to which the funds they furnish the market are put. It was idle for the Federal Reserve Board to suppose that credit could be made dear in the call loan market, thus curbing expansion in that direction, while yet keeping it easy in the commercial loan and acceptance markets. Obviously, the purchase of large amounts of acceptances at low rates released other funds which could then be used for security loans if desired without direct resort to borrowing at the reserve banks. The fact of the matter is that the control of credit in satisfactory fashion is possible only when the expansion of bank credit as a whole is the criterion used, not expansion in this or that particular market.

A Desirable Objective

WE may draw the conclusion, then, that although the Federal reserve authorities were justified, under the terms of the act, in trying to cope with the unwonted expansion of credit in the security loan markets, they were not likely to find successful a policy which attempted to differentiate in marked fashion between the security and commercial loan markets.

To come now to the second part of the proposition already stated, that central banking leaders should confine their attention to the maintenance of a stable level of commodity prices. Again citing Professor Cassel:

> "A central bank has no other function and should never for a moment contemplate taking over any other function than that of keeping the purchasing power of its currency in regard to commodities at the highest possible stability."

To this truly amazing dictum, one may be forgiven if he replies in astonishment, "Since when?" On the contrary, sound banking theory points to the central bank's chief function as the maintenance of a sound credit structure, which implies, of course, the maintenance of gold redemption of the country's currency and the stabilization of the money or credit markets of the country. The stabilization of the markets for bank credit requires that measures shall be taken to prevent credit overexpansion so far as possible, not only in the commodity markets, but in the markets for securities and real estate as well.

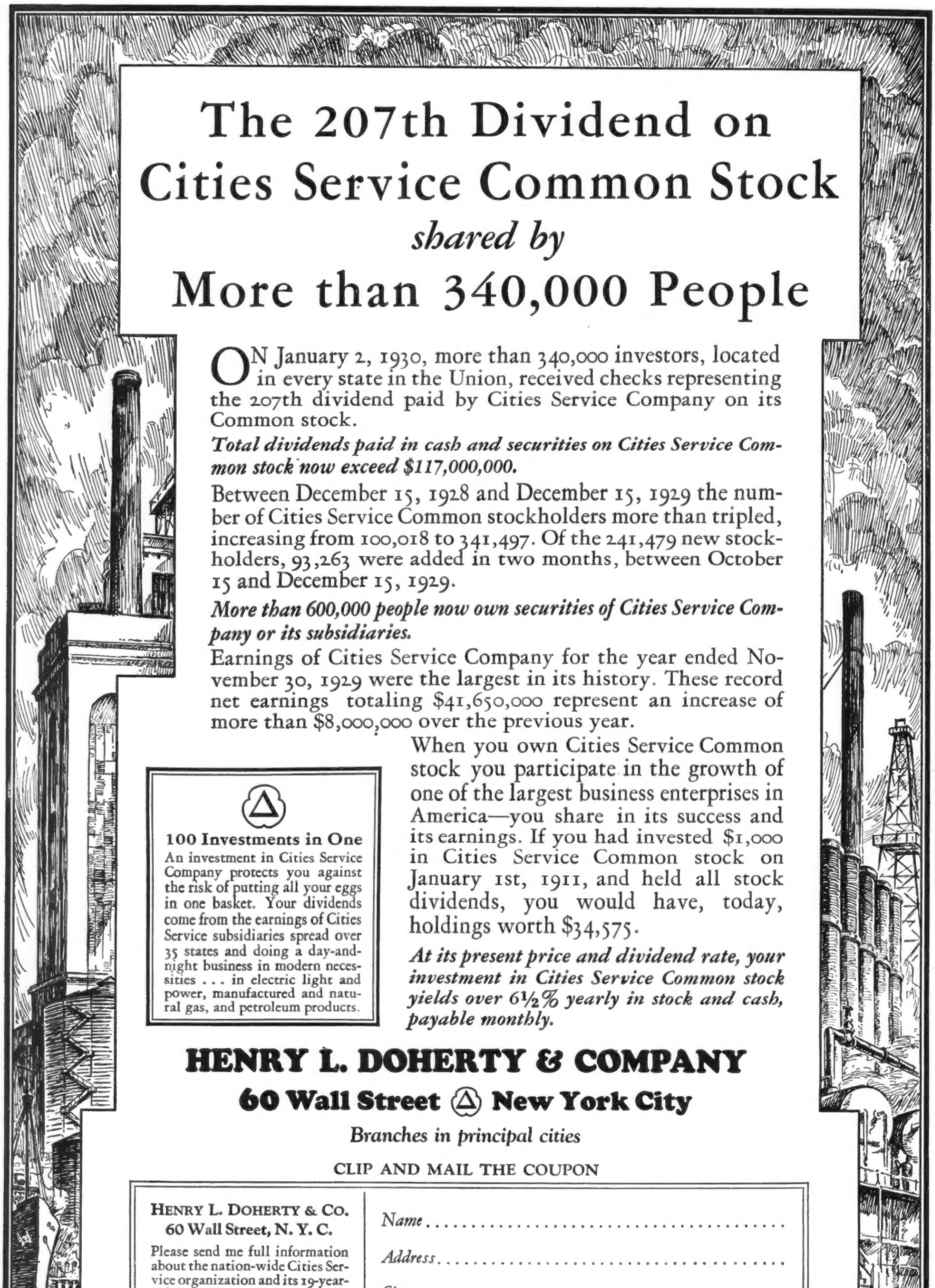
Such measures, if effective, should prevent undue inflation in commodity prices, which is doubtless a desirable objective. They should also tend to prevent inflation in the prices of securities and real estate—objectives which are also desirable. The expansion of bank credit in the United States in the past five to eight years has been greater than was necessary to maintain a fairly stable level of commodity prices. The result has been inflation in other lines which might have been avoided in part, at least, if a somewhat more stringent credit policy had been followed at times by the reserve banks.

Gold Was to Blame

THE Federal reserve leaders, however, have been by no means entirely to blame for the credit expansion which has taken place, with its ensuant inflation along certain lines. From the beginning of 1922 until the end of 1927 the United States received net imports of gold amounting to over $750,000,000 following a huge import balance of more than $660,000,000 in 1921. Gold imports ordinarily come directly to member banks and are deposited by them in the Federal reserve banks, member banks thus swelling their reserves without the necessity of borrowing at the reserve banks. Such increased reserves form the basis for approximately a ten-fold expansion of credit by the banking system, and over an expansion of this character the reserve banks have very little control.

It seems clear, therefore, that much of the credit expansion of the past few years would have taken place anyway, even if the reserve banks had followed a somewhat tighter credit policy. On the other hand, the Federal reserve has been able to exert a marked temporary influ-

(*Continued on page* 717)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Canada's Struggle with Gold

By W. A. McKague

Clue to Sudden Cessation of Gold Movement from Canada Last Fall in Face of Unfavorable Exchanges Seen in Restricting Influence of Dominion Government Exercised Over the Banks. Analysis Discloses Serious Depletion of Bullion Reserves.

THE decline of Canadian exchange in the past year, to levels which should have brought gold shipments from that country to New York, justify the question: Is Canada really and effectively on a basis of payment in gold?

The cost of moving gold from Montreal or Toronto to New York is nominally about 3/16ths per cent, but on large amounts it is less. The outside limits in quotations of the Canadian dollar in New York, therefore, should be a discount or a premium of ¼ of 1 per cent. Premiums on Canadian funds have been held to this limit through gold shipments from New York, since in the markets of the United States gold has been readily available for such purposes. But when the rates are the other way it is clear that gold from Canada is not always available.

Critics Attacked

THE weakness developed in the spring of 1929, and continued more or less conspicuously throughout the year. The discount was often 1 per cent or more, and at times it reached 2 per cent, and yet there was practically no movement of gold from Canada. The year before, when quotations had been on the other side, considerable gold moved to Canada.

This situation at once attracted attention in New York. In the Parliament of Canada, critics seized upon it to attack the government's financial policy. Though later taken as a matter of course, the fact that this condition lasted so long makes it all the more serious from the viewpoint of a gold country. In December, the discount was still over ½ per cent. It is of importance to bankers, and to business as a whole, to know whether the experience of the past year may be repeated, or whether some more effective correction may be applied in the future.

A survey of the economic position in Canada reveals fundamental strength. Several years of prosperity have expanded the nation's business without any signs of inflation. The biggest factor in Canada is the grain crop. This was short in 1929, but the farmers are in a good position to carry on. The live stock industry shows steady growth. The paper, iron and steel, rubber and other leading industries continue active, and the general volume of business set new records in 1929. Such reaction as has taken place in late months has been due first to the general decline in purchasing power because of the short crops, the temporary over-expansion of the automobile and a few other industries, and the influence of the Wall Street slump which directly affected securities which are inter-listed and indirectly affected all Canadian issues of a speculative character. With economic relations so closely knit, Canadian business is bound to take its cue from the United States, and conditions in Canada vary from those in its larger neighbor only in respect to the exact time of the peaks and low points, and because of a very few factors which are peculiar to Canada.

Resumed Gold Payments

THE problem is therefore reduced to the technical one, of how gold is handled in Canada in relation to that country's external affairs.

The Dominion of Canada has had a gold currency from an early point in its development as a part of the British Empire—in fact from the time its banking and financial system took shape. And its paper issues have been kept on approximate parity with gold except during the period 1914-26, in the first four of which years Canada took part in the war and in the last eight of which it had serious problems of readjustment. In this war and post-war period movements of gold were linked with the financial policies of the British Government, and were governed by the expediencies of the time. In the later years, however, exports were permitted under licenses issued by the Government of Canada.

Following the action of Great Britain, the Dominion of Canada resumed gold payments on July 1, 1926. The intention was that gold movements would be unrestricted, and that adequate reserves could be maintained for Canadian Government and bank note issues. The movements of gold and bullion since that time have been as shown in the accompanying table.

The "foreign" coin and bullion covered by the third column represents gold minted in British sovereigns, United States dollars or in some way other than Canadian.

In commodity trade, Canada had an export surplus of $237,000,000 in the fiscal year 1927, $141,000,000 in 1928, and $123,000,000 in 1929. This shows a declining surplus.

Reserves Seriously Depleted

TRADE in commodities and bullion must be studied in conjunction with invisible items and this is notably true of Canada. Under ordinary circumstances there is a large flow of capital into Canada for investment, and since the war this new capital has come almost entirely from the United States. Other things being equal, a surplus of commodity imports then becomes normal. On the other hand the accumulated investment of outside capital in Canada is estimated at nearly $6,000,000,000, setting up an annual debit of possibly $300,000,000 a year for income on such investment, which is either to be remitted from Canada or left for re-investment. Then there is tourist trade, which is estimated to net Canada possibly $150,000,000 annually. Freight charges, insurance and several other factors enter into the trade balance of any country.

These complications obviously would take us far afield, but the gold position may be set forth without them. The gold stocks of Canada are almost entirely in the hands of the Dominion Department of Finance, and of the chartered banks. Holdings of other institutions

MOVEMENTS OF GOLD AND BULLION

Fiscal Year Ended March	Imports	Exports Canadian	Exports Foreign	Exports Total
1927	$46,086,458	$2,011,391	$43,040,819	$45,052,210
1928	31,308,807	3,008,960	58,878,007	61,886,967
1929	29,560,310	36,932,465	58,299,998	95,232,463
1930 (6 mos.)	1,279,219	409,660	3,226,653	3,636,313

and of individuals are insignificant, and in any event do not affect the foreign exchanges. The figures for recent years are as follows:

Dec. 31	Finance Department	Banks	Totals
1925	$134,670,131	$68,824,985	$203,495,116
1926	128,086,238	71,438,401	199,524,639
1927	127,691,098	69,306,804	196,997,902
1928	90,397,147	67,538,530	157,935,677
1929 (Oct. 31)	60,091,731	61,649,888	121,741,619

From these figures it is clear that the gold reserves of the Canadian Finance Department have been seriously depleted, and while the bank holdings have been maintained, the country's gold stock has been greatly reduced since gold payments were resumed.

Gold Mined in Canada

CANADA is a big producer of gold, being exceeded only by South Africa and the United States. Current production is greater than ever before. Down to the end of 1929 approximately $735,000,000 of gold had been mined in Canada, which is several times the amount kept in the country in the form of reserves. This fact, however, has not kept its exchange in order.

A gold output is not worth any more in exchange than is the same value of any other commodity. The new gold is the property of the mines, and in the absence of restrictions is disposed of where they please. Most of it has gone to the United States for refining. Consequently it does not appear in the Canadian trade returns as exports of coin and bullion, but rather among the commodities, as exports of "gold bearing quartz, dust, nuggets and bullion obtained direct from mining operations."

No Premium Available

THERE is at Ottawa a branch of the Royal Mint, established in 1907, and in the war period it refined large quantities of both South African and Canadian gold. Then from 1924 to 1926 most of the Canadian gold went to the United States. In the latter year a new arrangement with the Ottawa Mint was reached, as a result of which the bulk of the Canadian gold was refined there. But with exchange against Canada in 1929, and no premium available on gold shipped to Ottawa, the mines again sent it to the United States; the premium was enough to cover the expense of shipping and refining, which amount to about $6 per $1,000, so that the mines did better than when they shipped to Ottawa.

The Root of the Trouble

SINCE the decline in Canada's surplus commodity exports seems to be the root of the trouble, we may glance for a moment at the details of this trade. Imports have kept steadily mounting to record figures. Exports actually declined slightly, though they were temporarily boosted by the big crops of 1928. In the past year the position was accentuated. The following figures illustrate:

	Eight Months Ended November 1928	1929
Exports from Canada ...	$940,799,741	$801,945,486
Imports to Canada ...	841,728,992	885,298,363
Balance ...	+$99,070,749	—$83,352,877

Thus the Canadian trade position is reversed from a favorable to an unfavorable balance, the net change being over $180,000,000. This is a striking change, and might of itself explain all the difficulties in connection with the gold reserves and exchange rates. There are other invisible factors which have made the position all the more acute, however, but before passing to them the trade figures should be explained, in view of our previous assertion that Canada is mainly prosperous.

The increase in imports, as might be expected in a period of general prosperity, is spread among nearly all important classes of goods. But the decline in exports narrows down to grain. Other classes of exports in fact show a gain on the whole. Exports of Canadian grain dropped from $351,000,000 in the eight months ended November, 1928, to $179,000,000 in the same eight months of 1929. On December 6, 1929, there were 290,000,000 bushels of grain in storage in Canadian elevators, a very unusual quantity.

Underlying Factors

SEVERAL invisible factors have also worked against Canadian exchange. One of these is the reduced amount of new capital going into Canada from the United States for investment. The keen demand for money in the United States, both for speculation and for lending on the call markets, was responsible for this. Secondly, Canadian money was attracted to Wall Street, both for speculation and for call loans.

Since the autumn collapse of the stock market, and the quick disappearance of high money rates, these factors are both rectified. United States capital has resumed its outward perspective while some, at least, of Canadian capital has been withdrawn from the field. As the years go by, it becomes more and more apparent that in speculative times capital moves from Canada toward New York, but when investments take the lead, the trend is toward Canada.

These are the underlying factors. But why did not the Canadian banks ship gold at a profit, and thus avoid charging high rates on New York funds? No official explanation has been made in Canada, either by the Finance Minister or by the banks. The conclusion is that by agreement, which did not take the form of law or Order-in-Council, such shipments were avoided and it is clear that the plan has been effective in restricting shipments.

Dollar for Dollar

THE gold stock of the Canadian Finance Department is a reserve against the Dominion note issues. The Dominion Notes Act of 1914 permits of the issue of $50,000,000 of notes with a 25 per cent gold reserve, and a further amount of $26,000,000 without reserve was authorized in 1915. Thus $76,000,000 may be issued against $12,500,000 of gold. After that all issues must be covered dollar for dollar. This law is designed to meet general circulation needs for $1 and $2 notes, and there is little chance for any large proportion being presented for immediate redemption.

But in 1914, as a war measure, a finance act was passed permitting the issue of Dominion notes to the banks against deposit of approved securities. In 1923 this was made a permanent feature of Dominion finance. It permits of the Canadian note issue being swelled without gold reserve. The banks convert securities into Dominion "legals," preserving their own gold. But these legals call for payment on demand, and the Finance Department obviously has a depleted gold supply. The banks at times have made only slight use of the privilege. But before the end of 1928 they had run their total up to over $70,000,000 and at the end of November, 1929, it had further increased to over $100,000,000.

The Dominion statement of circulation and specie as at Nov. 30, 1929, showed that $233,000,000 of notes were then outstanding, with gold holdings $63,000,000. A further $128,900,000 of the notes were covered by securities. Over $40,000,000 were uncovered.

Some Remedy Is Desirable

THESE facts suggest the clue to the government's influence in restricting gold shipments by the banks. The weakness is not in the uncovered balance, because of the notes in general circulation only a small proportion can be presented at any one time. It is rather in the large issues to the banks, which are intended to furnish them with an immediate claim on gold, but which obviously cannot be presented for that purpose under present conditions.

(*Continued on page* 725)

The Seal Was Its Foundation

For an impressive example of the sterling qualities of stability, endurance and permanence, consider the Pyramids. Over five thousand years ago Cheops, King of Memphis in Egypt, built the first or Great Pyramid. To the document that brought this enduring structure into existence he affixed his seal. For then, as now, the affixing of a seal to a document gave to that document its validity and binding force.

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The Condition of Business

Easy Money and Receding Activity Are Reverse of Conditions One Year Ago. Retail Trade Affected Less Than Basic Industries. Banking Situation Strong, and Liquidation of Credit Is Rebuilding Foundation for Revival of Bond and Stock Markets.

ONE year ago we opened this review with the statement that credit was strained and money rates abnormally high, but that business was active and expanding; today these conditions are completely reversed, with money rates easy but industry receding. The consensus of year-end forecasts is mainly optimistic, but these will soon be forgotten as the records of actual performance in the early months of 1930 make their appearance. There is little doubt but that business activity in the near-term will suffer by comparison with that of a year ago and that, regardless of whether or not there is a pick-up in the last half of the year, results for 1930 will in most lines fall short of the new high records established in 1929. There is nothing seriously wrong with underlying conditions, and if the current year should prove to be as good as 1928 one could find no grounds for complaint, but this we will not be able to tell for several months.

Favorable Or Unfavorable?

IN analyzing the business outlook, it is usually comparatively easy to recognize and classify the major factors, but difficult to give them their proper weight. At this time, however, it is hard to even say whether certain factors are favorable or unfavorable. The decline in the three key-industries of steel, automobiles and building, for example, has been most drastic, but this very fact may point to a relatively prompt recovery. Wholesale and jobbing trade has fallen off sharply in the last quarter, but this condition assures heavy buying when the resumption comes. Lower commodity prices mean reduced costs of materials purchased by merchants and manufacturers, but they also mean inventory write-downs and sales resistance such as must always be faced when doing business on a declining market. A smaller volume of goods sold or manufactured in 1930 might be expected to result in higher costs per unit, for the reason that overhead is distributed over fewer units, yet many executives declare that they could operate more efficiently at an 80 per cent basis than at 100 per cent of capacity, and that the present recession gives them an opportunity to eliminate the less efficient workers from their organizations.

Business profits in 1929 for the sum-total of industrial and merchandising corporations, railroads and utilities, should be 10 per cent over 1928 and the highest ever achieved, even allowing for the slowing down in the last quarter. In 1930 these profits might very likely recede by 10 to 15 per cent. The cut in the tax rate will allow corporations to retain 89 instead of 88 per cent of their profits for dividends or surplus, and thus automatically increase the net profits as reported by over 1 per cent. This will increase the earning power of stocks and the security behind bonds, both of which should enjoy better markets this year in view of the liquidated credit structure and normal interest rates.

The Outflow of Gold

WE find no reason to become alarmed at the present heavy outflow of gold since this mainly represents the return of funds attracted here during the speculative boom and our own holdings are more than ample. Moreover, this gold will serve as a basis of credit in other centers, thereby making American credits unnecessary, so that the usefulness of the gold from the international standpoint is not diminished.

Production Now Below Normal

Following the active period of business that extended from the beginning of 1928 to the middle of 1929, it was not surprising that there should be some easing of the pace in the latter half of the year. Final statistics that are now available for November show that the major industries with few exceptions dropped below their level in the same month of the preceding year, and preliminary reports covering December indicate a further recession. November figures show that copper shipments during the month were 28 per cent below a year previous, zinc shipments 16 per cent below, lead shipments 10 per cent below and tin deliveries 7 per cent below. Prices of the non-ferrous metals have weakened and are only slightly better than pre-war, except copper, which through curtailment of output had been held at eighteen cents per pound despite persistent rumors of an impending break.

Steel ingot production in November was 17 per cent below the year previous, and in December the rate of operations slumped to below 50 per cent of capacity for the industry as a whole. Prices have not been reduced to any extent and producers are looking hopefully to a revival of demand for automobile sheets and structural shapes, meanwhile keeping fairly busy with the heavy railroad purchases.

The Auto Industry

AUTOMOBILE activity will of course be speeded up as soon as the January shows are over and the industry sees the reaction of the public to the new models, of which there will be plenty. A year ago we referred to the extravagant forecasts of 8,000,000 to 10,000,000 cars and trucks, but this year the forecasts from the trade are more conservative and average perhaps 4,700,000 vehicles, which would be nearly 15 per cent under 1929 but higher than any other year.

It will take some time for building construction to get into full swing again, for the easing of mortgage money rates has been more than offset by the unsettling effect on the general business outlook caused by the stock market collapse. Although a number of real estate surveys have shown no more than normal vacancies, it is rather early to draw conclusions from this evidence. In times of receding business some corporations are likely to find that they do not need all the office space contracted for, and some might even give up their executive offices in large cities and move their sales and general administration departments to the plants.

Building material producers are naturally among the industries that have slowed down, as are also the four major branches of the textiles.

Trade Is Irregular

RETAIL trade customarily flows on with less fluctuation than in the industries that are further back in line from the consumers. Christmas trade was in large volume, with a preference being shown for moderate priced rather than very high priced goods. Some stores made increases, some had decreases, and when final figures for December are available they are likely to prove about the same as last year; at least there has

not been the drastic falling off in general retail trade that had been asserted in some quarters.

In the wholesaling and jobbing trades, the stock market break has had the effect of causing these middlemen to adopt a hesitant and cautious attitude in making commitments, but the fact is stressed that sentiment as to the outlook for 1930 is by no means pessimistic. It has been found that the rumors of cancellation of contracts were greatly exaggerated. Such portion of business as depends on sales direct to the public recognizes that individual purchasing power has been curtailed to some extent but that the falling off in sales traceable to market losses is relatively small in most sections of the country and in most lines of goods. Where volume had been running below last year the reason was frequently found to be the mild weather that prevailed during November and into December, while the arrival of real winter weather has greatly stimulated the movement of seasonable merchandise.

Absence of excessive inventories carried by merchandising organizations constitutes an element of strength, the importance of which should not be underestimated. It marks a decided contrast between present conditions and those prevailing in 1921, when most merchants were heavily loaded up with inventory for a record sales demand that never materialized.

Prices Are Still Sagging

ANOTHER element of strength today is the absence of inflation in commodity prices, which have continued their tendency to sag and carried the index of the Bureau of Labor Statistics to 2.4 per cent below one year ago, based on November statistics which are the latest available. Most of the major groups stand below a year ago, the textiles being 4.8 per cent below, farm products 0.5 per cent below, foods 1.3 below, hides and leather products 6.1 below, fuel and lighting 3.2 below and chemicals and drugs 2.1 per cent below. Increases, however, were recorded for metal and metal products, amounting to 0.6 per cent, which is mainly accounted for by the higher price of copper; house-furnishing goods increased 0.7 per cent, while building materials were unchanged.

Actual prices of raw materials usually show much wider fluctuations than do the index numbers such as those of the Bureau of Labor Statistics which are made up of several hundred commodities, many of which are in the finished or semi-finished stage and thus contain a fixed element of labor cost and have a restricted instead of world-wide market. Raw silk, for example, is at present selling about 8 per cent lower than a year ago, raw cotton is 16 per cent lower, raw wool 20 per cent lower, and cattle hides 29 per cent lower. Crude rubber is under 16 cents per pound, compared with 26 cents a year ago, which naturally cuts the margin of profit for anyone having to carry an inventory.

It is likely that any major movement in prices from now on will be upward, inasmuch as so many commodities are deflated down to or even below the cost of production, and a general firming up in commodity prices would undoubtedly have a salutary and tonic effect in reviving normal business purchasing.

One of the most interesting price developments has been the drop in coffee during the last few weeks, following the collapse of the Brazilian plan for the control of coffee marketing. Organized several years ago as a plan to stabilize world coffee prices by having the Brazilian Government hold the surplus coffee off of the market after an abnormally large crop, it resulted in the accumulation of larger stocks of unsold coffee in warehouses, while the maintenance of profitable prices encouraged further increases in production. No one who had given any intelligent study to the plan was surprised at its eventual collapse when the time came that the government was unable to borrow any more money against this huge stock of coffee. When the price recently broke from about 24 cents per pound to around 14 cents, the country, which is mainly dependent on this one crop, was thrown into a chaotic economic state and its national credit damaged.

In coffee we have a classic illustration of how projects organized in violation of economic principles inevitably terminate. Advocates of government control might well, to use a colloquial expression, "paste this in their hats," along with the similar story of the collapse of rubber restriction by the British Government, and it is to be hoped that the newly-created Federal Farm Board, in its zeal to "do something" for the relief of agriculture, will not embark on any plans that are likely to eventually leave agriculture, and the country generally, in a much worse state than before.

Money Rates Back to Normal

EXCEPT for the temporary tightening of rates incident to the large year-end transactions, including "window-dressing" by corporations and banks alike, the level of money rates stands in striking contrast with the beginning of 1929. Following are the ruling rates on different classes of accommodation in New York.

	January 1929	January 1930
Call loans	11	6
Time loans	7¾	4¾–5
Commercial paper	5½	5–5¼
Bankers' acceptances	4¾	4⅛
Reserve rediscounts	4½	4½

Low money rates serve to benefit business both in their direct saving in financing charges and in their psychological effect. They will help commercial enterprise, encourage new construction and improvements, cheapen the carrying charges on installment sales and stimulate more liberal spending.

It will be recalled that in the first nine months of last year the level of money rates in this country was constantly rising, and as funds were drawn into this market from other parts of the world nearly a score of foreign central banks were forced to raise their rediscount rates to check the loss of gold from their own reserves. These higher rates worked a hardship on local industry, but there was no alternative, unless by declaring a gold embargo, which was done by Canada and Argentina but always has a depressing effect on the foregoing exchanges. In the last three months of the year the money situation changed completely, a return flow of gold back to foreign centers was set up, rates subsided, and normal relations were restored.

Lower money rates in 1930 may very likely cause a decline in bank earnings, but this cannot be helped, and conservative bankers prefer to do business on a basis of sound and normal conditions rather than to make an ever-increasing amount of loans secured by stocks at highly inflated prices, even though attractive rates are offered.

Banks Again in Control

NO more startling movement of credit has been witnessed by the present generation than the sudden withdrawal of over $2,000,000,000 of call loans placed for the account of non-banking lenders. As call loan rates worked higher and higher, there was an inducement to corporations and others having excess funds to place them in the brokerage loan market. As this constituted a transfer of credit out of the banking system, where it was no longer protected by reserves, the practice was criticized by the banks, who warned that their concerted withdrawal might cause a panic unless the banks should step in and take over the loans. No great attention was given to these admonitions, however, and comments were heard not infrequently that the banks were only provoked because of the fact that they themselves did not get to loan the funds and secure the lucrative rates. At their peak, these non-banking funds were supplying 55 per cent of the brokerage loans reported weekly by the Federal Reserve Bank of New York.

It is now an old story how these non-banking funds took flight when the break started in the stock market; some be-

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Sources of Prosperity

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will be just as much money in the hands of the people. All sales of securities, even when losses occurred, was simply a transfer of cash. Such transfer might be really a transfer of cash from a gambler on margins to someone who would use it in some legitimate business, beneficial to the community. In other words, general business has not suffered for lack of capital.

Probably the sales by investment brokers selling securities may have had a set-back, but this may be a blessing in disguise, as this form of business was being overdone, and advice given by some brokers more interested in their own profits than in the security of the investments sold by them, aided to a certain extent in causing the slump in security prices. The effect of this slump will probably be of short duration, and by spring will be almost forgotten.

Compensation for Services

THE "Statistics of Income" for 1927 enables us to study the sources of the income of those with net income in excess of $5,000. It does not give any information as to those with smaller incomes. For example, 540,893 individuals of the 913,597 who returned net incomes in excess of $5,000 received salaries or commissions ranging from less than $100 each to in excess of $1,000,000 each.

There were four individuals who returned net income from this source of $6,527,000, an average of about $1,632,000. There were 5917 individuals who returned income aggregating $387,783, or an average of about $65.50. That is, the returns showed that compensation for services rendered ranged from, say $10 to $2,000,000 during 1927.

The zone from $5,000 to $10,000 of income from this source embraced the largest number of returns, as well as the largest aggregate amount returned. The number was 258,476 individuals returning $1,768,916,593, or an average of about $6,850. These individuals, in fact, returned from this source alone about 11 per cent of the total returned by those with net incomes in excess of $5,000; while the total returns by these 540,893 individuals was about 28 per cent of this total.

THERE have been many estimates as to the number of individual stockholders in the United States. The returns for 1927 show that 516,029 individuals with net income in excess of $5,000 returned income from dividends of domestic corporations amounting to $3,761,909,703. The holdings of stock in domestic corporations may be esti-

mated about as follows, as of January 1, 1928:

516,000	individuals with net income in excess of $5,000 returned dividends amounting to..	$3,762,000,000
484,000	individuals returning net income not in excess of $5,000.......	493,000,000
2,300,000	individuals not returning income......	45,000,000
Corporations	returned the receipt of cash dividends, about	2,100,000,000
	Total cash dividends returned as being made by domestic corporations, 1927..........	$6,400,000,000

That is, about 3,300,000 separate individuals received dividends from corporations amounting to $4,300,000,000 during the calendar year 1927. These dividends ranged from say $5 to about $15,000,000.

A Brief for Independent Banking

(Continued from page 646)

in the system. It was fondly believed that this would operate to endow the weaker banks with the strength of the strongest, but the earnings of all were impoverished to supply the constant drain on the guaranty fund and in actual practice it operated to bring all down to a common level of weakness, illustrating in some degree the saying that a chain can be no stronger than its weakest link.

The Comptroller says that:

"in six states from 20 to 40 per cent of all banks in existence in 1920 failed."

The names of the states are of course withheld, but I venture the prediction that some, if not a majority of them, were states that enjoyed the benefit of guaranty laws.

Caused the Epidemic

I HAVE endeavored to point out as briefly as possible the three principal agencies, that either singly, jointly or collectively caused the epidemic of country bank failures during the period under review. That they are responsible for a vast majority of them there can be no doubt.

The first can be readily remedied by appropriate legislation with more ease and less disturbance than a new system can be legislated into existence. The second will cease to operate because country banks that have survived its effects thus far will in all probability continue to survive. Through a process of merger and consolidation they are eliminating excessive competition, adjusting themselves to new conditions and improving opportunities to earn a fair return. The third is an exploded fallacy that will hardly be revived as long as its unfortunate record can be read.

Of course it is not contended that these agencies caused all the failures;

there were other contributing causes. A number of these banks doubtless perished as a result of the violent economic upheaval of 1920-21, when after the war inflation all commodity values suffered a drastic decline, some staple commodities as much as 50 per cent, and finally, some were wrecked by criminal negligence and dishonesty, a malady that perhaps can never be entirely eradicated, but more rigid inspection and supervision would undoubtedly be helpful in that direction.

Conflict and Rivalry

THERE will be losses and failures from time to time under any system of banking, as there always have been everywhere, but there need be no apprehension under independent banking of a continuance or a repetition of the epidemic of failures, of which the Comptroller justly complains, especially if the Congress and the states will only do that which the record obviously suggests and demands, namely, require banks to be capitalized at a sum commensurate with the privileges granted, and the responsibilities assumed.

Since in the nature of things, banking of whatever type or character must owe its existence to governmental authority and be subject to governmental control, regulation and supervision, it is to be regretted that our peculiar form of government precludes the possibility of establishing a strongly organized, highly efficient, safe, stable and rigidly inspected banking system under uniform control and management, wherein all banks would enjoy equal opportunities and assume equal burdens and responsibilities.

As it is, we have a national system operating in all states and perhaps forty-odd state systems in as many jurisdictions, each operating under codes differing from each other and differing from the national code; rivalry and competition between the national and state systems, for numbers, as much as for efficiency and stability; banks hopping from one system to another and then back again, according to the laxity or rigidity of control and regulation; all of which is demoralizing to the business as a whole. Therein lies the fundamental weakness of American banking. Disguise the fact as we will, submerge the issue as carefully as we may, there is an irrepressible conflict and rivalry between our state banking systems on the one hand and our national system on the other that is highly injurious to the stability of the business, and banking in this country will not merit or enjoy the entire confidence of the people, nor will it achieve the highest degree of efficiency as long as it operates under several jurisdictions, as long as it is half state and half national.

Money at Mischief

(*Continued from page* 653)

way of least resistence, into dangerous economic morasses.

Glittering Promises

IDLENESS either of mind or capital is not a static condition. Each seeks employment, with beneficient or noxious effects depending upon the nature of such employment.

At the top of the recent stock market boom there was a huge amount of idle capital seeking employment. Production and distribution of boom dimensions could not absorb it. The low yields of common stocks did not invite it, and the "new economy" which included only equities in the investment program precluded purchases in a bond market already depressed and neglected by reason of high money rates and the glittering promises of future equities.

Who can censure our typical outside lender for doing the obvious thing, especially when "people who ought to know" assured him that it was all right? Let us not censure him—or anyone else—but try to analyze the apparent results of this abnormal outside lending of funds and see if what we may gain in wisdom may not eventually offset what we have lost from lack of guiding precedent.

To Irresponsbile Hands

AS the Federal reserve member banking system was already utilizing its reserves to the limit, the result of increased outside lending was a partial assumption of existing bank loans by bank customers. Thus an important function of banking—the regulation of credit—passed in increasing degree to unorganized and irresponsible hands.

Subsequent liquidation of loans has been reflected almost wholly by the withdrawal of funds by outside lenders. The banks have been forced not only to step into the breach made by the panicky retreat of these lenders but also to provide additional reserves against the redeposit of funds withdrawn from the collateral loan market. If stock exchange credit had remained in the control of banks, which in turn were controlled by a conservative Federal Reserve Board policy, much of the recent disastrous decline in stock prices might have been averted.

So, in the future, our typical outside lender may reason that the predicament of the banks, in like circumstances, may have a closer relation to his own or his corporation's ultimate fortunes than seemed apparent a few months ago. He may conclude that, on the whole, anything that has proved to be unsound for the business and financial community at

large will eventually prove to be unsound for himself as well. The same reasoning may possess the mind of the individual banker who finds his own bank in a relatively better reserve position than other banks as a whole.

Two Outstanding Principles

IN a broad economic sense, for future guidance, we might deduce at least two outstanding principles with respect to "loans for others" in the security market:

First—That increasing outside loans mean an increasing diversion of funds designed for productive uses to unproductive uses.

Second—That, owing to limitations imposed by legal reserve requirements, increasing loans "for others" tend to commensurately diminish the lending power of the banks and to divert control of credit from experienced institutions, upon which a great legal and moral responsibility is imposed, to individuals who recognize no responsibility except to themselves or to the individual organization for which they act.

In the future, therefore, a growth in loans "for others" in the weekly bank statements may be watched with anxious interest by business men as well as bankers.

Every bank director should have his own copy of the AMERICAN BANKERS ASSOCIATION JOURNAL.

Night Stores

(Continued from page 649)

they can sell quite a variety of wares, such as razor blades, toilet goods, packaged foods and many other staple items. A number of the big companies are experimenting with goods of this character.

Large vegetable and fruit stands, located on main highways on the outskirts of cities, are finding it profitable to stay open until one or two o'clock in the morning. Some of them remain open twenty-four hours a day. The Great Atlantic and Pacific Tea Company is toying with night stores. It has one large market store outside of St. Louis that is open nights. It operates all night on Saturday. Its experience is that people who have been out on a long trip like to lay in supplies for Sunday while they are returning Saturday night or Sunday morning.

Bound to Spread

CAR dealers make a good percentage of their sales in the evening. They find that people like to stroll along automobile row on a nice evening and window shop. A fair percentage of these lookers turn out to be good prospects.

Radio is sold in the same way. A number of big stores are launching separate radio shops. These are open evenings. People come in to listen to a demonstration and having a lot of time on their hands they stay until they become interested enough to buy.

Many department stores are capitulating to this night store idea to the extent of keeping their furniture departments open a few evenings a month. Gimbel's and Wanamaker's in New York do this. The vogue is bound to spread. Millions of persons have time to buy furniture only in the evening.

The good old custom of keeping stores open a few nights before Christmas and before other holidays is coming back. More stores are being kept open during the 1929 Christmas season than has been the case for years past.

THE vicinity of theaters is becoming an excellent location for the operation of night stores. This is true not only in the big cities but in smaller places as well. People like to stroll around after the theater and shop.

Another good place for night stores is in hotel and terminal lobbies and on boardwalks at resorts. Already there are thousands of shops in such places. They do their best business in the evening and on holidays.

It is not a ridiculous stretch of the imagination to picture a time when retail stores will do most of their business during off hours. Or perhaps retailing will become largely automatic. Goods will be dispensed through vending ma-

chines and the machines will be ready to dispense any hour of the day or night. Already this is happening to a degree. Vending machines are doing the best in the vicinity of offices and factories where the workers have no time to go to a store, but where they have time to slip a coin in a slot.

A New Way to Lend Money

(*Continued from page* 657)

ter. Consequently, if proper records of the debt paying habits of this class of borrowers are maintained, the prudent banker as promptly as possible eliminates the names of such laggards from his lists.

The heading Credit Recommended is not a credit asset; it is merely a notice to other lending officers.

Immediately following the various column headings, such as Age, Character, Thrift, and the like, are three ruled columns headed by the letters A, B and C. These columns are provided for checking the various gradations of moral qualifications at the particular time an officer rates a borrower.

For example, on January 10, Banker Jones wished to record his estimate of the various moral qualifications of Borrower Smith. Under the several columns "A," he puts a check mark behind "40-50" under Age, behind "honest" under Character, behind "close" under Thrift, behind "satisfactory" under "habits," and so on across the card. Should his opinion of Borrower Smith change in April, he would recheck the card under column "B," and should it change yet again, under "C" is provided for the third estimate.

An Arbitrary Figure

AFTER all the columns have been checked, the figures at the left of the check marks may, if desired, be added together and the total inserted at the top of the card under Rating. This total is purely an arbitrary figure and may easily be omitted from the record. It is surprising, however, what little variance there will be between the total ratings furnished by two or more officers who check a single borrower. As a rule, there will not be over a point or two of difference.

Under the column "Rate Explanation" are found groups of figures coupled with the words "First Class," "Good," "Fair," and so forth. These classifications also are purely arbitrary. Nevertheless, again it is surprising how accurately they will interpret the credit rating of borrowers.

The columns at the extreme right are provided for the initials of the officers checking the borrower and the date on which he checked the various columns marked A, B and C.

The legal descriptions and value of the borrower's real property and its incumbrance are inserted more for the purpose of integrating the borrower with the community. Borrowers are not so migratory if they are tied to a community by property ownership. At the same time the value of the borrower's equity in his real property is often a warning of credit hazard of first magnitude. Experienced bankers know how dangerous it is to extend operating credit to those whose holdings of real estate are largely in the form of small equities.

At a Glance

MATTERS listed under the heading "General Experience" usually recite the banker's history of his transactions with the borrower. If that is good, bad or indifferent, it is so listed here.

Under "Remarks" is recorded any promise the borrower may have made concerning his future action toward a particular note or any understanding between the banker and his customer which cannot appear in the note.

The use of colored inks in the Liability

Record proper is one of the most profitable and satisfying features of the whole system. For by the use of the various colors, the banker examining the card can tell at a glance whether a borrower has good, bad or indifferent habits of pay. For example, if the debit and credit items are all or very nearly all in red ink, the color used shows at once that that particular borrower pays all his notes at their maturity or before. If they appear in purple on the debit side, he does not reduce them at maturity but increases them. This in itself is a danger signal of high value. If, on the other hand, he makes partial payments, as indicated by frequent entries in purple on the credit side, the record reveals a laudable intention to reduce indebtedness. But when the card shows a preponderance of debit and credit entries in black, the borrower is revealed in the majority of cases as having poor habits of pay, and may well be classed as a frozen risk.

Expect to Be Coddled

ANOTHER easy method of watching habits of pay may be obtained by using the second column from the left labeled "Renewals." When a loan is renewed the first time, the figure "1" is inserted in that column which is to the right of the column bearing the new number given the note or renewal. If it is renewed a second time, the figure "2" is used, and so on.

The conditions in the accounts of some borrowers revealed by this simple method are amazing. Many, who are ordinarily classed as worth while patrons, are found to have atrocious habits of pay. Some never pay. Others may pay a little from time to time, but manage to renew the obligation to a sum approximating the original figure without ever eliminating it entirely.

Of course some transactions of this sort are perfectly satisfactory to the banker, but as a general rule they are not. It is very often found that the bulk of a bank's loans are derived from a fairly well defined group of more or less constant borrowers. They are patrons who are more or less continuously in debt and who expect the banker to succor and coddle them without any reciprocation. They practice a form of commercial banking wholly out of line with the theory of that type of banking which—in the past at least when credit has been in greater demand than supply—provides for the maintenance by borrowers of compensating balances for some part of the business year.

Results Are Amazing

UNDER the column "Balance" is found the total liability of a borrower to the bank. That, as is well known, is a most important figure. It shows at a glance the trend of the borrower's indebtedness, its proximity to any credit limit which may have been set for him, as well as its proximity to the loan limit of the bank itself. It is particularly useful in cases where the borrower may have a number of notes which he desires to pay before leaving the community. If the liability balance should call for more obligations than can be found in the note pouch, attention is called to the necessity of further search. As a result, danger of overlooking some misplaced note and the possibility of loss because of it are avoided.

It is the accepted practice in this system that the officer making a loan should initial both the note and the liability record for each obligation. By doing so responsibility is definitely placed where it belongs without uncertainty. Where more than one officer authorizes an extension of credit, columns are provided for other initials. There is no shifting of blame should a loan turn bad. Regular meetings of the officers' loan committee are held every morning at which the liability cards for loans made the previous day are presented. The officer making the loan is required to justify

his action. Where the officer does not feel warranted in granting a loan application at the time it is entered, he brings it to this meeting for the committee's decision.

Probably one of the most important parts of the record may be found in the last column to be discussed—that of "Recommendation at Maturity." The procedure is as follows: When the note teller sends out notice of the approaching maturity of a note, usually ten days before that event, he delivers the liability cards for such borrowers to the officer's loan committee. These gentlemen then have the opportunity of discussing the value of the asset to the bank and deciding in advance what fate it shall have when the customer calls in response to the notice. This rate is written down in the column provided. If desired the standardized abbreviations to be found at the left of "General Experience" may be used. The rule is usually established that when the loan committee has once established its policy in regard to any individual note, no deviation from the procedure is permitted without a new vote of the committee. Suffice it to say that the results obtained by the use of this column are amazing.

The Heart of the Bank

SO much for the system. What does it do? Patently it cannot be a substitute for good judgment nor will it make a bad loan good. But it does tell which are the bad ones and very often why they became so.

It acts as a sort of black list of former borrowers whose credit transactions have been unsatisfactory. It shows unmistakably the frozen loans and those which should be eliminated. It enables the executive officers to maintain a closer control of the bank's credit extensions. If properly handled by reasonably competent men, it will greatly aid in changing a bank in unliquid condition to one of considerably more than average liquidity. One bank reduced its local loans to 20 per cent of its total assets without denying legitimate credit to those who were entitled to it.

Should junior employees be occasionally called into the meetings of the loan committee, as is desirable if they are to be properly trained to assume the burden of handling credits later on, the system serves as a variety of text book for them.

But if it does nothing else, it does this; it keeps faith with the bank's depositors. It unlocks the doors of the lending officers' brains and makes available to those who are rightfully entitled to it vital information concerning the heart of the bank, its note pouch.

Chain Stores and Banks Get Together

(*Continued from page* 665)

which can be supported by a balance averaging $800:"

"Average balance	$800	
Less reserve	120	
Income-producing balance	$680	
Income at 5 per cent per month		$2.83
Activity costs (minimum)—		
25 deposits at 5 cents	$1.25	
5 checks at 3 cents	.15	
3M currency at 50 cents	1.50	2.90
Net loss monthly		$0.07"

These recommendations represent what bankers believe will form a basis for an equitable relationship between the banks and their chain store depositors.

Spokesmen for the chain stores expressed the view that in solving the problem of the relationship between the chain store and the local bank each case should be studied and determined by itself and not by a rule of thumb. They reported that in their contacts with local banks they found some of them to be run efficiently and that others have an extravagant overhead with consequent increased cost to their customers. It was felt that one bank, economically operated, would be able to make money on an account that averages

$500, while another bank, right across the street, might require a balance of $1,000 or $1,500 to avoid a loss.

The chain stores also found that in their dealings with banks as a whole there was no uniformity of charges nor uniformity of requirements. It was contended that bankers themselves did not appear to be acquainted with their own costs of operation, or the conditions under which chain store accounts would be found to be profitable.

In answer to the popular allegation that the chain store takes everything out of the community and leaves nothing in return the distribution of the receipts of one corporation was cited. It was shown that out of every $1 received there was the following division:

65 cents goes to the manufacturer.
12 cents is devoted to the local payroll.
9 cents is for rent.
9 cents is for light, heat, laundry and other necessary local expenses.
5 cents is the profit which, of course, goes ultimately to the stockholders, who are scattered all over the country and some of whom reside in each locality.

Some corporations it was brought out have adopted a policy of having all their bank accounts on a basis that would permit the bank to make a profit.

Members of both committees expressed great confidence in the beneficial results to be expected from the open discussions at the conference. Both committees are to continue their studies of the problem and it is probable that another meeting will be held at which will be taken still further forward steps in the direction of a thoroughly satisfactory mutual understanding.

The Committees

THE bankers committee, which is a sub-committee of the Commission on Banking Practices and Clearinghouse Functions of the American Bankers Association, was appointed by President John G. Lonsdale, of the Association, and consists of the following:

Hal Y. Lemon, vice-president, Commerce Trust Company, Kansas City, Mo., chairman; George S. Eccles, vice-president, First National Bank, Ogden, Utah; Fred W. Ellsworth, vice-president, Hibernia Bank and Trust Company, New Orleans, La.; William C. Rempfer, cashier, First National Bank, Parkston, S. D.; A. B. Taylor, president, Lorain County Savings and Trust Company, Elyria, Ohio; and O. Howard Wolfe, cashier, Philadelphia National Bank, Philadelphia, Pa.

The committee representing the National Chain Store Association consists of: W. H. Albers, president, National Chain Store Association, New York; Alvin Dodd, Sears, Roebuck and Company, Chicago; George M. Gales, president, L. K. Liggett Drug Company, New York; E. R. Allen, treasurer, Melville Shoe Corporation, New York; J. J. H. Herbert, treasurer, J. C. Penney Company, New York; F. H. Massman, vice-president, National Tea Company, Chicago; and R. W. Lyons, executive secretary, National Chain Store Association.

New Savings Booklet

SAFETY and profit in the bank's investment account is the subject of a booklet recently issued by the Savings Bank Division of the American Bankers Association. The study refers particularly to methods employed by smaller banks in the management of their investment accounts, and suggests means for banks to increase their earnings from this source.

Some of the points dealt with in the booklet are: "Interest Rate an Indicator," "Lack of Sound Investment Policy," "Do You Buy Securities Or Are They Sold to You?" "An Investment Program," "Diversification," "Use Correspondent Banks," "Familiarity With Law," "Study Interest Trends," "Eliminate Losses," "Exchanges May Be Advantageous," "No Holidays for Bank Funds," "Keep Standards in Mind."

Coffee Tips the Scales

(Continued from page 662)

notes in circulation. The unredeemable Treasury notes of which 1,977,304 contos (thousands of milreis) were outstanding in April 1928, are now convertible for the payment of duties, taxes, etc., at the rate of 4.567 to one gold milreis; the notes of the Bank of Brazil of which 592,000 contos were outstanding are about 68 per cent covered by gold and the Caixa gold notes of which 744,284 contos were outstanding are entirely redeemable in gold. With a total note circulation of 3,313,588 contos, therefore, against a gold reserve of only 1,151,085 contos, the gold coverage, were all three classes of notes covered by the gold holdings, would be 34 per cent.

Figured on the first seven months' trade and taking into account the 25 per cent break in coffee prices, Brazil's favorable merchandise balance should not amount to more than $16,500,000 in 1929. The proceeds from new loans for the first six months did not exceed $20,000,000. It is doubtful whether even this much will be incoming from this source in the latter half of the year.

At the moment there is not more than $40,000,000 visible credit built up abroad during 1929. Until the break in the stock market in October the New York as well as all other bond markets had been dead and in the first few weeks thereafter there was still little evidence of substantial revival. As soon as remittances have to be made abroad on Brazil's Federal, state and municipal bonds, not only will this credit vanish, but considerable more credit must be forthcoming. Such will be the case even under the most conservative estimate of the President of the Republic who, in his annual message to Congress on May 2, 1929, gives $119,036,390 as the amount to be paid abroad during 1929.

The Only Way Out

THE Brazilian banks have undoubtedly accumulated foreign exchange as the result of direct investments by foreigners or are making short term loans abroad in anticipation of long term loans at some near future date. These funds abroad can only be used as a stop-gap to prevent the decline of the milreis.

In addition to the debt service and remittances to stockholders in foreign-owned properties immigrant remittances are estimated as reaching $20,000,000 each year, while smuggled and undervalued imports not showing up in the custom's figures usually require remittances of approximately $25,000,000 annually. These two amounts alone will have accounted for all of the accumulated credit abroad so far visible.

Against these invisible items on the debit side of Brazil's international account there are few credits outside of foreign loans, advances or direct investments. Brazilians abroad are not in the habit of sending foreign earned funds home and few foreign tourists visit Brazil. Insurance and shipping earnings abroad are negligible.

The only way out for Brazil, therefore, seems a substantial foreign loan in the near future, at least before coupon date on the principal foreign issues falls due. In the past financing of the Coffee Defense Institute has been done principally in London through J. Henry Schroeder, Ltd. and Baring Bros., working in collaboration with the Rothschilds.

Consumption Lags

IT is believed that sound banking would dictate that any loan for coffee valorization at the present time take cognizance of certain facts.

From 1923-24 to 1926-27 production and consumption of coffee throughout the world were about the same. In 1927-28, however, production increased 15,000,000 bags of 132 pounds each while consump-

tion increased only 2,000,000 bags. This increase was almost entirely in Brazilian coffee representing 78 per cent of the world's crop.

In 1928-29 part of this surplus was absorbed by a drop in production of 14,000,000 bags as against a drop in consumption of only 1,000,000 bags. On July 1, 1929, however, the world's visible supply of coffee was 13,700,000 bags, of which approximately 10,000,000 bags were Brazilian. If 1929-30 crop estimates are correct the visible supply on July 1 next will be 21,000,000 bags, of which 15,000,000 will be Brazilian. This is just 2,000,000 bags less than a year's supply.

Already Below Cost

ECONOMIC laws are such that a huge supply of any commodity, no matter where located and how controlled, will tend to depress prices. Coffee prices at 11¾ cents per pound are already 1¼ cents under the estimated Brazilian cost of production. On October 28, 1929, the Coffee Institute advanced about $6 per bag on 9,000,000 bags of coffee costing $17 per bag to produce. This depleted the funds for this purpose in the Bank of the State of Sao Paulo, the advances made to the bank by the Bank of Brazil for this purpose totaling $54,000,000 in all.

Approximately $72,000,000 more will be needed if even this measure of support is given to the grower on the visible supply next July. On the other hand, the collapse of valorization and a further decline in coffee prices might wipe out Brazil's favorable merchandise balance entirely and create instead an excess of imports. In this delicately adjusted balance between prosperity and hard times coffee tips the scales.

Where Savings Deposits Went

(*Continued from page* 659)

ings banks. They could adopt the same policy that national banks were compelled to ask for under the McFadden Act of 1927. The national banks were hopelessly outclassed in some states by the state banks and trust companies, but the McFadden Act gave them some relief through the permission to act in fiduciary capacities, which over 2,000 national banks are now doing, to loan on urban as well as agricultural projects, and have limited branch banking.

The field that perhaps is the most difficult to change for savings banks is that of the limitations placed upon their investments. At the present time the statutes in some states are so confining that it is impossible to make earnings at all commensurate with the investment trust or even cooperative banks. The efficacy of the establishment of so-called "legals" might well be questioned. In Massachusetts just now there is considerable discussion on the importance of liberalizing investments for savings banks. Some are asking that well chosen stocks, both common and preferred, might be listed.

FINALLY one of the factors that may help to rejuvenate savings deposits would be the establishment of better banking practice.

There is far too much apathy among savings bank men with reference to the standardization of practices, cooperation in evolving changes, and, last but not least, an interest in the policies of their competitors.

The sooner that savings bankers realize that their institutions are no longer needed as a mere repository of savings, or to stimulate savings, the better. There are other institutions which are doing this work well and, incidentally, giving larger returns both in actual service and yield. This competition must compel the savings banker to widen his activities.

Bank Management and the Examiner

(*Continued from page* 652)

tirely for payment. The examiner's opinion is strengthened by learning that the estate is to be kept intact until the death of his mother, to the end that she may be assured of an income for the balance of her days.

One would hardly expect to find all of these unfortunate conditions apply in any one instance, but some of them nearly always apply in such lines as are found to be based on such expectations, and serve to raise the question as to how much consideration they should be given when making a loan.

One of Nature's Noblemen

SAM SKINNER'S note is the subject of attention on the part of the examiner, as it is very apparently an old timer with little if any change in the amount of the principal, save that when it is renewed the interest is generally added on.

Sam, from what the banker says, must be one of nature's noblemen. "There isn't any one works any harder than Sam, but he does have the darnest luck you ever saw.

"Last year he didn't have any crop at all hardly, and the year before, while he had good crops the market was off and he didn't get anything for it. He just don't seem to be able to hit it off at all."

So it seems to go with Sam: good crops, no market; good market, poor crop. If at any time he should hit it and get a good crop and good markets, it would be his luck to have sickness in the family or some other catastrophe that would take all he made. But, as the banker sagely remarks, "that sort of luck can't go on for ever," so the line at last resolves itself into a contest between the banker and the god of luck, with Sam actually on the side lines watching the play.

The banker, to play safe, then has Sam insure his life and assign the policy over to the bank, and then calmly waits for nature to take its course.

Left it to Sam

UNABLE to control the forces of nature as to crops and markets, he at least can place himself in a position where he can collect in event the Grim Reaper should decide it was time to call Sam from all his earthly worries, if, indeed, he has any.

Questions as to the proper assignment of the policy and acknowledgment by the insurance company: who pays the premiums and where are the receipts for the premiums, and if same are kept up, etc., etc., reveal that all the details have been left to Sam to attend to, and it is not known definitely just how he has handled it.

If, on the other hand, the bank attends to all these matters and pays the premiums, thus adding to Sam's indebtedness, there is no telling how long it will have to continue, for it is a well established fact that such debtors as are thus insured are of a most robust constitution and come of long-lived families.

Whether the mere fact of getting insured adds new vigor to them, is not definitely known, but the mere fact that they owe a debt which can only be paid in this manner has never been known to have a fatal effect on the insured.

One effect it does have, however, and that is, all parties concerned feel very well satisfied, realizing that each has done all that is humanly possible.

The Chattel Mortgage

"CHARITY covers a multitude of sins," and so do some chattel mortgages. It has always been a mooted question just how much value there is to some of them that are submitted as security to loans, and whether they serve

any other purpose than a sign "Go slow."

In a great many instances they constitute the only available collateral of the borrower, especially so if he happens to be a tenant farmer; and, of course, the moral question enters largely into such lines anyway.

Some of these mortgages are so ambiguous in their descriptions of the chattels covered as to make it difficult to segregate them from other property that might have been acquired after the mortgage was taken, unless extraordinary care is exercised.

For instance, some mortgages cover "lumber in the yard," which, unless segregated and kept apart absolutely under the control of the bank, would be impossible to identify and hold if the worst came to the worst, a condition which would apply also in the case of merchandise on the shelves of the merchant.

THEN, again, there is the mortgage given by a customer of the bank, which covers "one brown cow named Maud, one brown cow named Daisy, one muley cow named Pet, etc., etc., through the owner's entire herd of maybe fifteen or even more cows. One can imagine the difficulty trying to separate and identify these cows if need arises. Apparently, the only way would be to go out and call for Maud, Daisy and Pet, trusting to their bovine intelligence to answer to their names when called.

Another form, which appears to be a favorite with the local garage man and automobile dealer, is one covering "autos on the floor." Sometimes these are not even designated by numbers, nor any other means of identification, and even where this is done, substitution of collateral is often allowed by the bank.

The unrecorded chattel mortgage is often encountered, and when questioned by the examiner the banker will always admit that he knows the borrower very well, and did not think it necessary to record it on that account, "and besides he knows we have it anyhow."

Most all such instances as have been recited are cases where the moral responsibility of the borrower is apparently beyond question, but in that event the examiner wonders, why take them?

Bond Issues for Highway Construction

(*Continued from page* 668)

amounted to $1,222,312,300, of which all but $272,205,400 were county or local bonds. In 1926 it was estimated by the census authorities that the total road bonds outstanding amounted to $2,152,016,933, of which all but $765,678,250 were local bonds, the total of the latter having increased $436,231,783 in the five years. It seems certain, therefore, that the total of state and county or other local highway bonds outstanding in the United States at the present time is something like $2,500,000,000.

In a general way the difference in policy in the several states as between bond issues and no bond issues marks a difference in the conception of road building as well as a difference in the nature and security of road bond issues. In states where counties and other local units are called upon to finance road building the matter is regarded as one of local enterprise and local benefit. It rests on local credit, and the bonds are not supported by such special taxes as the vehicle and gasoline tax and the cost of road construction is not paid primarily by road users.

Where states issue bonds the enterprise of road building becomes a state undertaking under a broad policy, based upon the credit of the state in the first place but also, in most recent issues, based upon special taxes which are outside of ordinary state revenues. Such issues, in fact, are above and beyond ordinary state indebtedness and cannot fairly be included in per capita calculations of state indebtedness as a measure of general state obligations or a burden

upon state credit. They become an investment in profitable public works, as much so as docks, warehouses or harbor improvements; profitable not only in indirect benefits but also in actual earning power represented by the vehicle and fuel taxes paid by the users of the roads. They are self-paying and self-perpetuating.

A Cardinal Principle

IN 1918 the State of Illinois authorized a bond issue of $60,000,000 for road construction which paid for 1480 miles of concrete roads constructed between 1921 and 1925. Aside from the fact that the saving to users of the improved roads by prompt construction amounted, as distinct from construction spread over some fifteen years as would have been necessary under a pay-as-you-go policy, to over $8,000,000 a year at a most conservative estimate. The income from automobile license fees on which the bond issue was based increased from $6,803,556 in 1921 to $15,521,530 in 1928. Some of this increase was due to the general expansion of the use of automobiles, but certainly enough of the expansion was due to the stimulus of the improved highway system to pay for the service and amortization of the bond issue.

It is generally considered a cardinal principle in sound financing of road construction that bond issues are generally justified and are usually the best means of financing when used for original construction, particularly of arterial highways, but that they are not justified and are usually unsound in principle when any portion of the proceeds of the sale of the bonds is used for maintenance purposes. As a matter of fact, a very large proportion of original construction is effected by the sale of bonds, whether the latter are issued by the states or by local authorities. Thomas H. MacDonald, Chief of the United States Bureau of Public Roads, in an address to the American Association of State Highway Officials at San Antonio, Texas, on November 12th, in analyzing the situation in this respect, called attention to the fact that while the proportion of vehicle and fuel taxes returned by the state governments to local authorities in the thirty-one states issuing bonds was 15 per cent of such income, the proportion in the remaining seventeen states was 23 per cent.

Little Room for Choice

"IN other words," he said, "the people who are supposed to oppose bond issues are actually issuing high interest local bonds in considerably greater proportion to their highway income than the people who are presumably in favor of the issue of bonds."

He also showed that in the seventeen states having no state bond issues at the end of last year the outstanding local issues in 1926 amounted to $657,072,787, while the issues outstanding in the thirty-one states with bond issues amounted to $729,265,896. In the states issuing no state bonds the counties also are called upon to contribute more to the state governments for road fund purposes than in the states which issue bonds. In the matter of new road construction, therefore, the question of bonds has largely been narrowed down to the question of whether the bonds are to be issued by the states or by local authorities.

From an investment standpoint there is really no proper comparison between the state bond method and the local bond method. Local issues are based mostly upon direct local credit with no income pledged for their service. State issues are usually made on the basis of special revenues aggregating several times the annual interest and amortization charges. Naturally interest on the local bond issues will average about 50 per cent more than interest upon state bonds, and with less satisfaction, as a rule, to the investor. Nor does there seem to be much room for choice from the standpoint of the taxpayer.

Now if all this reasoning is sound, and it certainly is difficult to pick flaws in it, the conclusion is inevitable

that instead of a reduction in annual expenditures and to a certain extent annual bond sales for road construction, these expenditures and the volume of road bonds will be increased. Of the 3,016,281 miles of rural roads existing in 1928 only 626,137 miles were surfaced at all and only 102,559 miles were surfaced by bituminous macadam by penetration or better.

Unquestionably some bond issues by states for road purposes have been unwise chiefly because of a lack of coordination between the actual needs of the states and counties and the lack of a combined and comprehensive plan, fiscal and physical, for the highway systems projected and constructed. This is particularly true, however, of bond issues by counties and other local units which have heavily burdened themselves in many instances without proper regard for the manner in which their highways fit into comprehensive state systems and also without regard to the proper financing of their issues. Undoubtedly the first rule to determine the soundness of a bond issue relates to the manner in which the service of the issue is to be met. In highway construction also, as in all public works of such a character, no plan can be considered sound which is not more or less self-supporting and self-perpetuating.

Where road systems can be established on the basis of known earning power, such as vehicle or gasoline taxes or, if necessary, by tolls, there seems to be no question that such issues are sound both for investor and for the borrowing public. The large incomes received by most of the states from the special vehicle and fuel taxes are enabling many of them to continue their road construction at as rapid a rate as is physically feasible without resort to bond issues for more than a part, if any, of the cost. It is evident, however, that this very fact strengthens the position of bond issues as well as bond holders in those cases where bond issues prove to be necessary.

Liquidity in Bank Investments

(Continued from page 687)

surplus and the character of the accommodation it is called upon to furnish its customers. I have set up these liabilities against these classified assets, and I have also bracketed them in each case so that they overlap.

"This is because there is always a certain proportion of each group that is subject to variation. A certain proportion of demand deposits are stable and not subject to quick withdrawal, and on the other hand, a certain proportion of savings and time deposits may be subject to withdrawal. So also in the case of capital, surplus, etc., the investment and fixed asset fund might be broadened to meet a seasonal demand.

The Principal Problem

"THE seasonal demand for credit on any particular bank and the seasonal fluctuation of its deposits call for a different diversity of investment than that of a bank in a suburban community, and therefore such a bank as the latter need not carry itself in as liquid a position as one in an active industrial community.

"There are many who may disagree or have different views as to the classification of certain of the assets that are shown on this chart, for there has been much discussion as to them. But I am presenting it in its present form in the hope that it may be of some help in assisting to solve the principal problem that must confront all, and that is, how to invest money so that it may yield the highest return to stockholders, and at the same time maintain a position of liquidity that will give depositors the protection to which they are entitled."

Why Prices Stayed Put

(*Continued from page 692*)

ence on money rates, especially in the New York market, by its discount rate and open market operations, and it seems probable that the speculative mania of 1928-29 might not have got out of hand if the gold exports of 1927-28 had been allowed to exert their normal effect on market rates somewhat sooner, instead of being made ineffective through the purchase of large amounts of governments and the maintenance of a low rediscount rate.

The Sole Criterion

BUT we are not concerned here with what might have happened had the Federal reserve acted differently. Our concern lies rather, first, with the extent to which the commodity price level has, in fact, been controlled by Federal reserve policy in the past few years, and, second, with the desirability of a stable commodity price level as the sole criterion of central banking policy.

With regard to the first point, enough has been said to show that reserve policy has had very little to do with the recent stability of the commodity price level. It has remained stable in spite of, rather than because of anything the Federal reserve banks may have done or tried to do, and also in spite of the large increase in member bank reserves—due to gold imports—over which the reserve banks possessed little control.

When the demand for commercial loans is strong and reliance on the reserve banks for funds is necessary, coupled, perhaps, with an outflow of gold to other countries, the possibilities of central bank control over the commodity price level are most favorable, or at least most capable of being put to a test. In the most of the period prior to 1929, however, just the opposite conditions prevailed, and the possibility of reserve bank control of the price level was at a minimum.

WITH respect to the second point mentioned above, the events of the past two years have been such as to emphasize the undesirability of a banking policy which concentrates its efforts on maintaining a stable commodity price level to the exclusion of all other factors. The absorption of funds by the stock market led to monetary complications extending well-nigh over the civilized world.

It eventually made necessary substantial increases in foreign discount rates, bringing about a rate of 6½ per cent in England, to the discouragement of business in that country at a time of substantial business depression. Argentina and Canada were forced, temporarily, to abandon the gold standard by placing embargoes on gold exports to this country. Other countries became alarmed over the weakness of their exchanges and the possibility of a loss of gold to the United States. And all this for what? That a part of the American public might engage in a wild speculation in securities which led to no good result, and which was carried to such extremes that the crash, when it came, was the most severe in stock market history.

That such a catastrophic movement, which got under way and gained momentum through the use of bank credit and which finally brought about monetary and banking difficulties of an international character, is outside the proper scope of central banking control does not seem credible. Whether such control can be made effective or not is another matter. To state, however, that inflation of this sort should be ignored by banking authorities is to advocate their viewing with unconcern a decidedly unsound condition in one important section of the credit structure.

Character Loans Call for Caution

(*Continued from page* 675)

"Guess I might as well cash this, but I will open a checking account here next pay day. You've got a real bank here."

For the next thirty days Mr. Benton continued to run along in his cloud of perfect loan making. He was really too good for his bank's good and the relentless deity — Realization — was just around the corner, ready to strike forcefully enough to awaken him. It took just three days for the whole thing to show up.

ON Monday, Thomas Vernon missed his payment. Mr. Benton sent a past due notice.

On Tuesday Mr. Vernon called, but the voice on the wire was distinctly not the right Vernon. It said:

"There must be some mistake about this. I never made a loan."

"But," persisted our hero, "Didn't you get a loan of $200 here a month ago?"

"No sir, there's some mistake. I'll be down right away."

When Mr. Vernon arrived he proved beyond doubt that he was the genuine Mr. Vernon. Hasty investigation revealed that the two co-makers' signatures were also forgeries.

On Wednesday another forged note was found which had been made by a lady about the same time as Mr. Vernon's. She obtained $300 in the same way exactly—Vernon's wife, no doubt.

A Much Better Graft

NOT a bad scheme these crooks used —not new, but recently being readapted—taking advantage of the fact that some banks are now opening loan departments and using managers who may not be highly experienced in small loans. Such operators spend considerable time in selecting a borrower and co-makers who have good credit and at the same time cannot be reached easily by telephone. They go to extreme ends to learn with whom these men have had credit dealings. They realize it is frequently possible to find a loan man who can be diplomatically persuaded to make a loan the same day the application comes in. In this way they have a practically sure thing and a much better graft than forging checks.

Conferring with industrial bankers, who have for twenty years been specializing in character loans, as well as some of our larger banks who are making outstanding successes, we find almost uniformly the following rules are followed:

1. All applicants must be identified by telephone or letter. At least one comaker should likewise be reached directly before money is paid out.

2. When borrowers cannot be reached by telephone many banks decline the loan.

The Personal Touch

THE latter rule is of two-fold value. First, it guards against families who are drifters or of a low social and financial class.

Second, it is of inestimable value in obtaining prompt results when the borrower misses his payments. There is no known method more effective in modern collecting than direct communication with the debtor. A borrower feels morally bound to make his payments when he has promised verbally he will do so. Ten people wrote me stating they would make payments on the first. Five of them did it. Eight delinquents told me over the telephone they would be in on a certain date and seven of them were there. The percentage is much better when you can talk to them. No doubt they know how easily you can reach them.

3. Drafts, instead of being made payable to the borrower, should be made directly to the creditor or vendor from

whom the borrower is purchasing or contracting.

There is the Semi-Crook

HAD Mr. Benton done this, Vernon might have had more trouble in cashing his draft. Although the protection and advantages of this rule need hardly be mentioned to a group of bankers, still many small loan departments fall into the error of paying in cash.

Nothing is quite so irritating as to have a borrower who says, instead of taking up his loan with the bank, he lost the money; or, instead of buying the car he wanted to use in his business, his wife obtained the cash and bought a new dinner ring.

Then, there is the semi-crook, who swears he has $500 saved up and wants a loan of $250 to complete the purchase price on a new car. After a lot of trouble in checking him up it develops that he does not have $500 or any part of it. In dealing with this class of liars insist on having them produce the $500 they say they have before doing anything with the loan, and protect yourself further by issuing drafts not to them but to their creditor.

Safe, Sane and Sure

TRULY the small loan man labors under many regulations. The redeeming feature is that they are simple and once the department is established under the direction of one head, these details which bankers fear, resolve themselves into a regular routine that may be quickly and effectively handled.

It is entirely possible—not only possible, but probable—for the bank to duplicate the accomplishment of the many banks now making a profitable volume of small loans.

Character loans properly made are safe. Fully convinced of this fact and sufficient volume assured, it would be folly to refuse a rate of 12 per cent or better when the bank is now receiving only 5 per cent or less on a part of its loanable funds.

Take Only the Cream

BUT while you are making personal loans, whether you agree with all the suggestions we have mentioned or not, paste this—the fourth and most important rule—down tight where it will not get away.

4. Take only the cream.

Real estate and collateral loans are based largely on permanent values. Character loans depend on moral risk, which runs in quality from zero to such a large figure it has never been tabulated. In other words morality is complex and intangible. Still, for our purpose, it can be easily analyzed.

You, as a small loan man, will consider as possible risks only the topnotchers. Your standards are high. You are going to take up character reading and you will gather your facts largely from past records as far back as you can get them. You will scrutinize the past of each applicant for honesty, ambition, unwavering purpose, for discretion, for loyalty, forethought, unselfishness, promptness and intellect.

Quality First

WITH these facts the process is simple. It consists of two operations.

First, all applicants possessing any of the baser qualities or slow tendencies are culled out. The remaining members of the better class then are separated into two groups:

(a) The Doubtful.
(b) The Safe.

All doubtful risks may be reworked or required to furnish additional endorsers which strengthens them to the approving point.

The slogan is "Quality First" and with it constantly before you the small loan department should become a decidedly big department in your bank.

The Yeast in the East

(*Continued from page* 672)

But the greatest achievement has been in the schools. Go where you will, in city or in country, the neat white bungalow school house is to be found. Fully one-third of the entire school population is enrolled in the public schools.

Suffered a Setback

NO tropical country has made such marked improvement in the same period of time. Under American control taxes went for constructive development. The money has been used for such things as schools, sanitation, roads and bridges, not as in China for military exploitation. The pure culture yeast of modern democracy here has been at work.

But the forward march of the Philippines has suffered a setback in recent years. One of the leading political parties has long been an advocate of immediate independence. During the Wilson administration Congress passed the Jones Act which specifically promised the Filipinos independence as soon as they were ready to take over the reins of government. Under Governor General Harrison, no time was lost in "Filipinizing" all branches of the governmental service as well as the educational system of the islands.

Fifteen years ago 21 per cent of the teachers in the public schools were Americans; today there is a trifle over 1 per cent. The Philippine Agricultural College fifteen years ago had as high a standard as any agricultural college in the United States. The staff of both this school and the University of the Philippines was largely recruited from our best American institutions. Today outside of the department of English there is less than half a dozen Americans in both institutions. In no small number of positions, men in charge have been reduced to annual appointments. With this uncertainty of tenure many resign voluntarily rather than await the slow but inevitable process of displacement. In practically all branches of the government service Americans of long experience have been displaced by Filipinos, ofter appointed primarily for political purposes.

A Breach of Trust

UNDER white direction the Filipino officials were doing splendidly but with the entire control given over to inexperienced hands, the morale of the organization has declined. Several of the government bureaus that used to be noted for high grade work have in late years deteriorated materially.

The most flagrant breach of trust was in the financial history of recent years. In earlier years the peso was at par, the currency was as good as that of Uncle Sam because he was behind it. First, the legislature passed an act authorizing the establishment of the Philippine National Bank. Then the bank balances carried in American banks were transferred to the new National Bank. With the money in the hands of the "politicos" in power, loans were made on all sorts of business experiments; sugar mills, hemp factories, cement mills, coal mines, iron foundries and even to land development companies.

The government was willing to back all lines of business with loans for internal development without much scrutiny of the nature and character of the security offered. Then to cap it all the Philippine legislature passed an act which made foreclosure of the loan impossible for the non-payment of interest and principal. This, of course, made the party in power solid with the borrowers. Of course, the crash soon came and the government has had to take over the management of a number of these industries to protect its investments.

Peace and Order

THE United States is maintaining peace and order among the 87 varieties of people that formerly were cutting each other's throats, and hanging each other's heads as a trophy on a pole beside the door. But even today the Igorote hates the Moro and the Moro the Visayan. Most of the Filipinos belong to the Catholic faith to whom the warlike Mohammedan Moros would never submit.

As Lord Northcliffe told them during his last trip to the islands the Filipinos have more liberty today than any other nation. They are protected from outside encroachment by the American navy; order within is maintained by the American army; and even the lighthouses are maintained for navigation at no cost to their treasury. The money which they pay in taxes can thus go for constructive developmental purposes.

Their products enter the United States duty free, whereas if they had to pay our protective tariffs, not a pound of their sugar could climb over our tariff wall in competition with Hawaii and Cuba. If they had to compete in the world's sugar markets, the Dutch would crush them before they even got started.

Of the $120,000,000 of products which are annually exported, over 80 per cent now comes into the United States without the payment of any duty whatever. In fact, it would doubtless be much to the direct economic advantage of many lines of business in the United States if the products of the Philippines had to pay the tariff like other foreign countries. For years after they were acquired as a result of the Spanish-American War, the regular tariff rates were effective against importations from the islands, but when sugar went onto the free list under the Underwood Tariff Bill, this provision was stricken out.

America's Job

THE attitude of the Filipino press is often strangely inconsistent. Recently a leading Manila daily carried in its editorial column a fervent appeal to unify the country in furtherance of the independence campaign. In the same issue of this paper was another article which set forth in glowing terms the very great advantage which would accrue to the Philippines if the rubber industry could be fostered in the islands. The markets of the United States, the article said, would afford an outlet for any quantity of rubber which might be produced in the islands. It had evidently never occurred to the editor that if the Philippine prayer for independence were answered that Philippine rubber would then have to come in through the tariff gateway, and not enter duty free, as is now the case. Here was a case where you could keep your cake and also eat it at the same time.

All political parties are now united in the matter of pressing for immediate independence. Under the spur of nationalism, those who feel that the time has not yet come when the islands can with safety be turned over wholly to the Filipinos for self-government are deterred from a frank expression of their opinion. To intimate that America's job is not yet complete, is akin to treason.

A national prayer of independence has recently been promulgated and is used on all occasions. It is designed to invoke the aid of the Almighty "in setting free those in bondage."

In spite of all that has been done to put the Filipinos on a basis where stable representative government can function from within, and not require continuous external support, it is not by any means generally recognized that the job is safely completed.

Seething With Unrest

THE yeast of nationalism has been making rapid growth, however, in our dough. In the not distant future this country will have to settle the problem whether the time has arrived for them to go it alone. In doing so, we cannot ignore the question as to how long would they be able to stay independent. With the pressure for standing room among the teeming millions in the Orient, the arable lands of 7000 islands, covering an area 26,000 square miles larger than entire Great Britain, and now occupied by a population of less than 11,000,000, are not likely to go long unoccupied.

On all sides are they surrounded by populations that are under the most intense pressure for more room. Java, India, China and Japan have a population density that is enormously high when compared with these islands. Where would the Philippines be able to turn for commerce and industry that would consume her abundance of raw food materials if denied access to the United States?

The East is seething with unrest. To America, the problem of the Philippines is a very real one. Will we mold this budding nationalism in those regions where we have the responsibility so that it will grow into the full stature of complete self-government, or will we throw off "the white man's burden" and let someone else solve the knotty problem? Surely the Yeast is in the East.

The British Committee on Finance and Industry

(*Continued from page* 684)

A great many people have succumbed to this kind of melancholy, and we see signs of it in the widely prevalent fatalism about business conditions. This fatalism is an offshoot of the robust and hopeful liberalism of the last century. The Liberals taught that it was a mistake to put shackles on a trade or an industry which was tending to grow. They said to the State "Let the child be, you are only stopping its development by coddling it." The neo-fatalists teach that it is foolish to try and stimulate energy in a body which is exhausted. "Let the child die," they say "Unless it pulls itself together of its own accord it isn't fit for life." The Liberals taught that the state must not administer doses of brandy to a healthy economic body, in the hope of rousing it to unnatural energy, as by doing so they would mortify the sources of natural energy. The neo-fatalists teach that it is sinful to administer a single dose to a body whose natural health has been impaired by a great shock.

WE of the *Manchester Guardian* maintain, on the contrary, that Britain's task is to recover her spirits without too many scruples how she does it. We believe that national programs for reorganization of the textile and coal industries, and for housing and transport, are the need of the hour. The Labor Government is as timid of embarking upon such programs as the Conservatives, chiefly by reason of ignorance of the financial machine, which they take to be something very mysterious and terrible, which it were best to destroy or keep at a distance.

In our view the Snowden committee should be a point of contact between a government which knows what it wants done in the way of economic reorganization, and the people who know what that would imply in the financial sphere. The government ought to have given the committee a clear mandate to examine specific schemes, and to hear the objections of those who maintain that on financial grounds it cannot be done. As this is not the case the committee must choose between condemning itself to futility and giving itself a real program.

More Routine Profits

(*Continued from page* 688)

foreign bill until he obtains a rate which is so near the "actual" that the small margin of profit is more than lost in interest while the item is afloat. There is, naturally, more profit in exchange sold than in exchange bought; you are getting money instead of giving it; the interest involved is a profit rather than a loss. But when you consider the balances which have to be maintained, at low interest, with foreign correspondents, and the postage, stationery, wire services, etc., involved, is the profit adequate?

The Good Old Rule

AS regards what used to be called "inland exchange" the mere fact that the term is no longer in current usage shows what has happened to that source of profit. We issue cashiers' checks without charge and accept them on deposit without charge, unless they have originated thousands of miles away. Even then we make only an "interest deduction." Which leads to a discussion of interest on current accounts and the acceptance of cash items at par.

It is a fundamental of banking that deposit interest should connote term deposits. It is a pity that the old fashioned certificate of deposit has fallen into disuse; that was a sound type of deposit. But we still have our savings departments, and while they constitute demand deposits in all but name, there are still some elements of saving grace in them. They are not so expensive to operate; the "no checking" rule, for which let us be duly thankful, is still intact and not hanging in shreds as it is in Canada. This is the place for interest bearing accounts; the savings department. Current account customers who really have surplus funds to leave in the bank should open a second account in the savings department. In this way their reasonable request for interest is adequately met. Customers whose funds are not surplus; whose superficially large balances will not bear the light of analysis, because of the large number of afloat cash items, and whose balance in the bank is usually double that in their check-stubs, cannot reasonably request interest.

The tremendous day-by-day total of cash items afloat is ruining the good old American rule of 10 per cent. By that I mean, of course, the old stipulation that 10 per cent of a loan should be left on deposit. There is a growing realization of this fact, and in some quarters 20 per cent is being requested.

And what about public opinion? Well, could the citizens of this free-spending country not afford to give the banks a dollar a head more, per year, for "services rendered?" It is only the price of two cinema shows.

I am reminded of the "cut" which took place some months ago in the fifteen-cent cigarettes. The chain stores suddenly announced that they would in future sell for two for a quarter. The independent tobacconists were aghast. "This," they said, "will ruin us!" And some of them, I believe, it did. The two and a half cents per package was their profit, but they had to meet the competition.

Who benefited? The public? What's two-and-one-half cents to our public, individually? It is nothing for one man to save in a day, but 300 or 400 times two-and-one-half cents is a lot for one man to lose in a day.

The same thing applies to the banks. A dollar a year to the individual means $120,000,000 profit for the banks, which

is enough to eliminate hundreds of bank failures. To the average American is not a dollar a year cheap insurance against the failure of his bank?

"Let It Come"

THERE'S another thing. Increasing, or rather sustaining, bank profits means cutting out extravagance. In the last five years we have been extravagant. Of course, so has everybody else. That's what has made business good. And, as the financial columnists of the day point out, if we "let up" in our buying there is going to be depression, or rather recession. I prefer "recession"—we should be able, we should be courageous enough, to realize the necessity for recession, for a while, at least, without being "depressed."

The optimists who "sold us prosperity" are now telling us that we are no poorer than we were before.

"Your income is the same," they tell us, "and income is the only real wealth."

True, but these same optimists have, for years, been adding to their income the $1,000, $2,000 or $3,000 appreciation in their stock holdings, and they have been spending it.

The figures of the banks' drop in deposits during the heyday of the stock boom have been published. They were large figures. But they would have been larger had it not been for the tremendous sums in circulation. Sums which usually stopped "over-night" in some bank or other. Bank deposits, in other words, were kept up by the amounts in transit between Peter the seller and Paul the buyer.

It is possible that from now on savings deposits will increase. They usually move in inverse ratio to the stock market, and we will be in a sounder position.

Some of us have been spending as if we had the profits of a gold-mine behind us instead of the profits of a bank. Perhaps in some cases we have overdone the matter of premises, for we are housed as Solomon in all his glory never was.

The Nebraska Guaranty Law Decision

DESPITE a decision by the Nebraska Supreme Court early in December upholding the state guaranty of deposits law the case seems destined to reach the Supreme Court of the United States for a final determination. Attorneys for the banks in the case have announced their intention to seek a rehearing as preliminary to getting the matter before the Supreme Court.

A rehearing is sought on the ground that the principal questions at issue were not passed upon in the decision of the Nebraska Supreme Court. Counsel for the banks contend that the court did not pass upon the following questions:

First. Whether or not the special assessments provided by the guaranty law are confiscatory.

Second. Whether or not at the present time such assessments protect depositors in going banks.

Third. Whether or not the law is constitutional under present conditions.

The Nebraska court held that the banks cannot raise the question of whether or not the law is constitutional, but the opinion did not say whether this is because the former decision of the Supreme Court of the United States is considered to have finally settled the question, or whether it is because the banks have operated under the law or whether it is because of estoppel or waiver on the part of the banks.

Also it is felt that the court has not determined the question of whether the banks could waive their rights to raise the question of the constitutionality of the Nebraska law.

Counsel for the Nebraska banks feel that nearly every question raised in their brief was ignored and that the decision apparently was based upon an opinion of the Supreme Court of the United States rendered twenty years ago when conditions were different from those of today.

Convention Calendar

Date 1930	State Associations	Place
May 8-10	North Carolina	Pinehurst
May 20-21	Oklahoma	
May 27-28	Missouri	
June 11-13	South Dakota	Aberdeen
June 16-18	Iowa	
June 23-25	Illinois	Peoria

Date 1930	Other Associations	Place
Jan. 20	Bank Management Conference — Wisconsin Bankers Assn.	Milwaukee
Jan. 23	Conference on Bank Operation and Adm.—Illinois Bankers Assn.	Chicago
Feb. 18-20	Trust Co. Midwinter Conference,	New York
Mar. 5-6	Pacific Northwest Conference on Bank Management	Portland, Ore.
Apr. 28-30	Assn. of Reserve City Bankers	Memphis, Tenn.
May 5-8	A. B. A. Executive Council	Old Point Comfort, Va.
June 16-20	American Institute of Banking	Denver, Colo.
Sept. 17-20	Financial Advertisers Assn. Convention	Louisville, Ky.
Sept. 29-Oct. 2	American Bankers Assn. Convention	Cleveland, Ohio

Savings Bank Division Regional Conferences

Mar. 5-6	Tulsa, Okla.
March 20-21	New York, N. Y.
Mar. 27-28	Detroit, Mich.

Canada's Struggle With Gold

(*Continued from page 696*)

Such a position, though unusual, is not without precedent. European banks have at times refused to ship out gold under similar conditions. In *Foreign Exchange*, Professor Albert C. Whitaker, after citing evidence of similar action by continental bankers, concludes: "It must be conceded there are times in practical life when gold does not flow out of certain lands regarded as gold standard countries, even when its export would pay as an exchange operation." The Canadian example of 1929 is rather striking, however, because of the wide margin between the exchange rate and the cost of shipping gold.

The facts already cited suggest possible remedies. Large quantities of grain must go out of Canada, at the opening of navigation on the Great Lakes, if not sooner by rail. This alone may rectify the situation. There may be a new flow of capital to Canada for investment; in fact the premium secured on New York funds has already brought substantial sales of Canadian securities in New York.

But as a matter of public policy in Canada, it is fully realized that some remedy is desirable to avoid a repetition. Where grain exports introduce seasonal fluctuations into trade, it is argued that for gold to be moving back and forth to maintain the balance is uneconomical, but there are other solutions which would be more desirable than the exchange rates of the past year.

Condition of Business

(Continued from page 700)

cause the lenders were concerned over the safety of their loans, and therefore withdrew them from the market at just the time that the market needed them most to prevent a collapse; others to take advantage of the demoralized conditions and to get stocks at bargain prices, forcing the borrowers to throw their stocks overboard to be picked up by the lenders. It is also well known how the New York City banks shouldered the burden of taking over the loans that were called and thus preventing more serious trouble. Since the break, the volume of non-banking loans has continued to dwindle and the banks are once again in control of the money market.

In the space of a few weeks the expansion in brokers' loans extending over nearly two and one-half years, has been cancelled. Secured loans, other than to brokers, are still high, as are commercial loans, but both of these should work down as time goes on. Borrowings from the Reserve banks are very moderate, and there is no reason to fear any shortage of credit accommodation at reasonable rates during the coming year.

Rebuilding the Security Markets

So fast has been the transformation of the security markets and the money situation that many people do not appear to realize that the foundation is being rebuilt for another upward movement. It would be extremely difficult to find justification for any definite predictions made at this time, for the reason that the necessary readjustments are still in process of being made. Of course, one could buy stocks of the larger companies more or less blindly, if they were to be purchased outright for long-term investment. When one is traveling through a tunnel it is generally assumed that the open air will be seen eventually, but as applied to investment, many experienced operators feel it is just as well to wait until the daylight can be seen before being too sure how long the tunnel extends.

Business at present is going through a tunnel, and no one can say exactly how soon it will emerge, unless he be very wise or else very rash, but this much we do know, that signals can be observed that register definite progress. There is no more important element upon which to build a bull market in stocks than a brokerage loan account well liquidated. There is no surer way to obtain support for stocks than to have dividend yields that will carry the securities on borrowed money at a profit. There is no more certain inducement to bond buying than to have a scarcity of

seasoned issues selling to return better than prevailing money rates. Thus the foundation is being prepared for better markets in the future, after savings have had a chance to pay off old loans and accumulate a surplus, and after business has gone through a period of sub-activity.

United States Government securities should become increasingly strong over the next few years, now that the depressing influence of tight money has been broken. France has been added to the list of foreign countries that have ratified their debt agreements, and will be in the market for our government bonds whenever they are under par, for debt payments until 1986.

The Outlook for Money

EASY money for the early part of 1930 at least seems to be the unanimous viewpoint of leading money market observers. The contraction in the volume of call loans with the consequent increase in the supply of credit, which even an outward gold movement of major proportions does not disturb, indicates a period of low rates.

One of the most definite predictions of probable easy money comes from the Federal Reserve Board which, in its Federal Reserve Bulletin for December says:

"Demand for reserve credit increases in December in response largely to increased currency requirements of the holiday season. The reserve banks this year enter upon the season of maximum demand for reserve bank credit with the volume of their credit oustanding smaller than at the same period of 1928 and with a reserve position stronger than a year ago.

"The general credit position has been improved by the liquidation of a large volume of security loans, and the banking system of the country is in a position to meet such seasonal demands upon it as will arise in the next few weeks without any considerable firming of money rates to trade and industry."

The rapid outward movement of gold which began toward the close of 1929 is regarded without concern by the Guaranty Trust Company of New York, which says:

"The decline in the total amount of credit employed in stock exchange transactions has brought about a marked easing of money rates. This, in turn, has led to the withdrawal of more foreign funds from this market and has thus precipitated one of the most rapid outward gold movements ever experienced here. The movement, however, was fully expected and represents a natural consequence of the reduced demand for speculative credit."

Characteristics of French Securities

(Continued from page 680)

down in the articles of association, which were practically intangible so far as the individual holder was concerned if there was no founders' shares association formed at the outset, may henceforward be modified by a decision of the other holders.

It is important that a careful study should be made of the status of founders' shares and of their prospects before buying this class of securities, which frequently offer attractive features strongly appealing to investors, in order to avoid the risks which may arise from an unexpected modification in their status.

There is, for instance, the case of a company whose articles of association stipulate that its founders' shares may be bought back on the basis of the average dividend for the last five years, capitalized at 5 per cent, disregarding any accumulated surplus or amortization made out of profits. It was announced recently that the company intended to make use of this right; it was easy to estimate that the purchase price would amount to about 800 francs.

Discounted the Superdividend

Now this is what happened. In January, 1929, the shares were quoted at around 3,000 francs. It was rumored, in March, that this company contemplated increasing its capital. The founders' shares then went up to over 4,000 francs, the market discounting the increase of the superdividend which might normally be expected to result to the founders' shares from this operation.

Subsequently, the company announced its intention of making use of its right to buy back the founders' shares. This very rapidly brought the price down to around 2,300 francs. A considerable amount of discussion arose in the financial press and on the stock exchange and the attitude of the company was diversely commented upon, though it appeared that its right could hardly be questioned on the face of the status of the founders' shares under the articles of association.

Later on the company made an announcement to the effect that it would abandon its intention of buying its founders' shares back and was going to make to the holders a new proposal involving the maintenance of these securities, but with a reduction of their share in the superprofits from 25 to 15 per cent. As the company intends to increase its capital in the near future, the result of this proposal would be to restore the position of the founders' shares in respect to the amount of their percentages in the superprofits. Since this announcement was made the stock ex-

change value of founders' shares has appreciated again. But in the meantime some of these securities have changed hands with a loss for the holders who sold on the falling market.

Of course, this example is not a frequent occurrence, but it serves to emphasize the delicate status of the founders' shares which, though they may prove to be extremely attractive securities when the business and profits of the company are expanding, may, nevertheless, include elements of uncertainty which deserve a careful investigation of their exact status.

Handed Over to Creditors

PARTS *Bénéficiaires* or participating shares is a term frequently used interchangeably for founders' shares. It is, however, more correctly used to describe securities similar in every respect to founders' shares, but which have been created after the company has been in existence for some time, in order to compensate some other company, for instance, for advantages received, cooperation given, etc.

The issuance of *Parts Bénéficiaires*, however, results in many cases from a financial reorganization, the process of which is generally as follows:

The capital is reduced by reducing the par value of the common shares to a lower figure or by exchanging a certain number of the old shares for one new share of the same par value. Then the capital is increased to the level necessary to start the company on its renovated career by the issue of privilege shares which are generally offered to the common shareholders. In compensation for the sacrifice which the common shareholders are thus compelled to make, they frequently receive some *Parts Bénéficiaires*. In other cases, these *Parts Bénéficiaires* are handed over to creditors and bondholders who may also have consented to some sacrifice on their claims to keep the company afloat.

Plural Vote Shares

THE picture of the capital structure of French companies would not be complete without saying a few words of the category of shares which enjoy special privileges in respect to voting rights. In stock exchange parlance these shares are usually designated as "plural vote shares."

They are by no means a recent occurrence since they first appeared in 1911, but, before the war, it required exceptional circumstances to induce companies to issue such shares, as any discrimination in respect to votes would have been severely criticized and considered as a gross infringement of the principle of equality between associates.

Plural vote shares are generally designated by the first letter of the

alphabet to distinguish them from the common shares; for instance, A shares will be plural vote shares and B shares common stock; the letters O and P which stand as abbreviations for "Ordinary" and "Priority," respectively, are also used. Plural vote shares are not usually listed though there are a few exceptions of such shares whether registered or issued in the form to bearer.

THE existence of this category of shares in the capital structure of a company is a matter that always deserves careful consideration. When companies enjoy a solid standing, have a fair record of substantial dividends, a respectable board and a wide range of activity, there is no reason why an investment in common stock should not be recommended, whether plural vote shares have been issued or not; it is practically certain that the interests of the shareholders will be safely protected though their control over the administration may have been decreased. But, if these prerequisites of any safe investments are not fulfilled, voting privileges reserved to a small group of privileged shareholders should be, in many cases, considered as an additional deterrent and invite caution, however promising future prospects may be described to be.

To sum up this study, one would be inclined to say "the simpler the structure of a company the safer the investment." This, of course, would be a rather summary judgment for there is a large number of companies which for some reason or other have been led to issue "priority shares," "plural vote shares," "beneficiary shares" or even mortgage bonds which are enjoying an excellent financial condition with very satisfactory prospects, and the unfavorable examples cited above are only rare occurrences which have been selected to bring out the more conspicuous cases. Still, on general principle, when such a variety of securities exists, it is well to ascertain exactly what are the respective rights of each category by carefully reading what the articles of association have to say on the subject.

The previous article of this series appeared in the December JOURNAL.

How Many of Your Officers and Directors

read "Don't Guess—Analyze" in the December issue of the JOURNAL? It tells how to plug one of the most serious of banking leaks. This article is but one of fifty or more published in the last year dealing with advances in bank management. More than one thousand banks throughout the country are placing GROUP subscriptions for their officers and directors to make absolutely sure that constructive information of this kind is read and *used* by the key men in their institutions.

Chain Banking in 1929

THE Federal Reserve Board has completed a survey of chain banking developments during the fiscal year ended June 30, 1929. As of that date a total of 230 chains were listed by the board, embracing 1561 banks, of which 596 were national banks and 965 state banks.

Northwest Bank Management Conference

BANKERS from six states of the Northwest are to meet in Portland, Ore., on March 5 and 6 for the Pacific Northwest Bank Management Conference to be held there under the auspices of the Commission on Banking Practices of the American Bankers Association and the states associations participating—Oregon, Washington, Idaho, Utah, Wyoming and Montana.

Loan administration will be the principle topic for discussion, including call loans, farmer loans, capital loans, merchant loans, warehouse loans and commercial and finance paper. Account analysis and service charges are to be considered under the head of profit producing policies, with separate discussions of chain store, railroad, express and other similar accounts.

INDEX TO ADVERTISERS

WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR *and the* READER

The Management Conferences

THROUGH arrangements already made, or in the making, thousands of bankers will this winter have an opportunity to participate in at least one conference on bank management.

On Monday, January 20, there is to be a management conference in Milwaukee under the auspices of the Wisconsin Bankers Association.

During the same week, on Thursday, January 23, Illinois bankers will have an opportunity to attend a conference with similar objectives, to be held in Chicago under the auspices of the Illinois Bankers Association. On the same date there will be held the annual Mid-Winter dinner of the Illinois Bankers Association in Chicago.

At Portland, Ore., on March 5 and 6, there will be held the Pacific Northwest Bank Management Conference under the joint management of the American Bankers Association and the bankers of the Northwest, to which it is expected there will be a great outpouring of bankers in the Pacific Northwest. Six states are to be included in this meeting—Oregon, Washington, Idaho, Utah, Wyoming and Montana.

On March 14 and 15 there will be a bank management conference in Philadelphia for the benefit of bankers in New Jersey, New York, Delaware, Maryland, Pennsylvania, Virginia, West Virginia and the District of Columbia. Following that there will be another conference somewhere in the southeastern section of the United States.

The word has gone forth that every banker can cut a piece of cake for his bank through attending a conference on management, hence the increase in the number of conferences from which many men no doubt are planning to get information which will give their banks better profits.

"Do Nothing for Nothing"

"BANKERS who are studying agree," says W. L. Brooks, Northern Natl. Bank, Bemidji, Minn., "that, with increased costs and many avenues of profit taken away, they cannot depend upon the interest from the note pouch to develop sufficient income to even keep them out of the red.

"With this interest alone we can never hope to pay decent salaries or to pay the dear stockholders even a small dividend, nor can we charge off the losses, which will necessarily appear from time to time.

"There is, however, a way out of the darkness, 'Do Nothing for Nothing.' "

"Don't Guess—Analyze"

THAT more attention than ever before is being focussed upon the problem of the cost of small checking accounts is shown by the widespread interest in the article and chart with the above title in the December issue of the Journal on Pages 560 and 561. "We are sending you seven subscriptions" writes the President of a Chicago bank, "Be sure to start them with the December issue, as we are very much interested in 'Don't Guess—Analyze.' "

If you are not already using Mr. Haines' formula, read it again; it's a key to better profits.

Unconventional

"BUT I Can't Understand a Bank Statement," is the introductory line of an advertisement recently published in its local newspapers by the American-Traders National Bank of Birmingham, Ala. The body of the advertisement consisted of a statement of the bank's assets and resources, presented in an unconventional form which is reproduced in miniature below:

OUR FINANCIAL STATEMENT

(Published on latest call of U. S. Comptroller of Currency)

Written So That Everyone Can Understand It

OUR TOTAL RESOURCES ARE		$31,927,388.83
As conservative bankers we have arranged our assets as follows—so as to be able to meet any request for payment:		
Cash (Gold, bank notes, specie, and with legal depositories returnable on demand.)	$ 5,895,950.34	
U. S. Government Securities	3,663,613.44	
Other Bonds and Stocks (Of railroads, municipalities, and other corporations, of first quality, and easily salable.)	1,564,686.23	
Loans to Individuals and Corporations (Nearly all of which are payable within 90 days.)	19,148,463.17	
Customers' Letters of Credit	2,000.00	
Real Estate, Furniture, and Equipment (Our banking home and 50 feet of adjoining property, properly appraised.)	1,652,675.65	
OUR TOTAL LIABILITIES ARE		$26,842,710.75
We owe to depositors and to the Federal Reserve Bank	$24,092,710.75	
Circulation (Consisting of National Bank Notes issued for us by the United States Government.)	2,750,000.00	
THIS LEAVES A SURPLUS OF		$ 5,084,678.08
to which should be added the "double liability" of our (National Bank) stockholders for the amount of their capital stock		2,750,000.00
MAKING A TOTAL AVAILABLE SURPLUS OF which is a guarantee fund upon which we solicit new deposits and retain those which have been lodged with us for many years!		$ 7,834,678.08

Consider carefully the *strength* and *capacity* of an institution before you make your banking connection . . . *for it can easily determine your success or failure.* We invite your consideration of our statement herewith

★ Bank financial statements are periodically required by the National Banking Department (of National Banks) and by the State Banking Department (of State Banks). The law requires that these statements be published in newspapers, and it is the privilege even the duty of every bank depositor to examine these statements when they appear and thus inform himself as to the institution to which he has entrusted his money

"Peace and Prosperity"

"YOUR editorial 'Peace and Prosperity' in the December issue is mighty good," writes a New York banker. "It is well to hold idealism of this high order before the bankers of our country. Oftentimes we are prone to forget the basis on which the superstructure is raised."

There has been a lot of favorable comment on the December cover picture and the dissertation that went with it. The character of the comments are indicated by two incidents: From the Middle West a clergyman wrote for permission to reproduce it and announced his intention of making it the subject of a holiday sermon. In Fremont, Neb., Dan V. Stephens, of the Stephens National Bank, reproduced both the picture and the picture story as a full page newspaper advertisement.

Radically different but of comparable interest is the beautiful painting from which the February cover illustration has been made. It is a glimpse of the Old Dominion in those romantic times when tobacco was money.

One Way to Strengthen the Federal Reserve

ONE way to strengthen the Federal Reserve System and to keep national banks from "going state" would be to set up a guaranty law fund in every state. After such a law had been in operation for a while a trend from state to Federal charters would set in, and as membership in the reserve system is compulsory for national banks, worries over the decreasing membership in the Federal Reserve System would be over.

But as it would cost the country too much money to do it by that method, and as in many states even the most professional of politicians would turn in fright from a guaranty law proposal, there is no immediate danger of that plan being adopted.

The Merger Movement

"I THINK" writes an Economist, "It is pretty clear that the great struggle of banks to get big has been fundamentally based on the profitable business coming from security flotations and participations which is almost monopolized by big banks having good distributive power. It seems to me clear that this kind of business will slow down greatly in 1930, so that I think there will be a distinct decline in the movement toward bank mergers."